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MBA PROFESSIONAL REPORT

**The Private Military Industry:
Economic Analysis, Uses & Considerations**

By: Ercan Sökmen
March 2007

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**THE PRIVATE MILITARY INDUSTRY: ECONOMIC ANALYSIS,
USES & CONSIDERATIONS**

Ercan Sökmen, Captain, Turkish Army

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

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THE PRIVATE MILITARY INDUSTRY: ECONOMIC ANALYSIS, USES & CONSIDERATIONS

ABSTRACT

Different customers in different ages have used private military members as part of their military operations. After the Cold War era, a new form of Private Military Industry emerged. Companies serving in both military support and offensive operations, and morally and legally questionable military operations in conflict regions raised many dilemmas about the industry. Without understanding the economic, legal, ethical and contractual dynamics of the industry, there is no simple way of employment of private military companies (PMCs) for democratic governments. This study tries to cover these dynamics for better use of PMCs, without considering whether they are beneficial or not. A better understanding of the industry, governments, international community and other prospective legal clients (such as non-for-profit organizations and private firms) can produce the necessary outcomes. By using Porter's "Five Forces analysis," driving factors of industry are analyzed, as are the sub-factors within these areas and the competency of some key players. Then, the impacts of PMCs on military operations (i.e., legal, ethical and entrepreneurial considerations) are explored.

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EXECUTIVE SUMMARY

Soldiers for hire have been the part of military operations throughout the ages. However, after the end of the Cold War era, the international environment transformed and a new form of private military actor, the Private Military Company (PMC) emerged. In the realm of the public domain, these new actors now share the established state system. While they have many common features with soldiers for hire or mercenaries, they are different from old-time mercenaries in the way they operate their businesses. Although they are legitimate businesses, their morally and legally questionable operations have raised many dilemmas.

To better understand these considerations, a profound look into the industry is required. Although numerous articles have been written and research conducted on the industry, most have been generally descriptive studies dealing with its legal aspects. Without understanding all the dynamics of the private military industry, any study reflecting only one aspect of it would be incomplete. This project covers these dynamics mostly from the economic perspective. However, this project covers not only the known facts about the private military industry, but also the lack of concepts about the industry dynamics. A better understanding of the industry would help governments, the international community and other prospective clients produce necessary outcomes while using PMCs. To establish a system of understanding of this industry and its implications, a focused examination of industrial analysis, Transaction Cost Economics (TCE), entrepreneurship, and problematic areas is required.

Porter's Five Forces analysis is a helpful tool to see the dynamic relationships among industry actors. This analysis shows that there are many more segments or niche markets than previously thought. Each segment has its own dynamics, different from the others to some extent. As in most industries, the private military industry also has business clusters assisting PMCs to enlarge their businesses. In addition, TCE gives a new view on the potential uses of PMCs. Any transaction among industry players dealing with the integration or outsourcing should consider the transaction costs. Some of the

decisions of integration or outsourcing could cause transaction costs burden on the player. In addition, according to TCE analysis, many costs inherent to transactions might offset the desired cost savings of outsourcing, which restrains the use of PMCs. On the other hand, some transaction costs require not using PMCs, such as the use of military provider PMCs by state militaries and some international entities.

The new private military phenomenon appears to be entrepreneurial. Starting from the end of the Cold War, many outside events created opportunities for the industry. PMCs have also sought innovative functions to diversify themselves from the rest of the industry. Whether opportunities are already apparent to PMCs, or they seek new opportunities, the security environment still provides a plethora.

The economic analyses of the industry assert that there are many unexploited lucrative areas for PMCs. However, subjects of regulation, ethics, legality, and political and social control of force decrease the prospective growth of the industry. These subjects are the most mentioned areas of the industry. In fact, even if PMCs are generally more effective and less costly, the accountability of PMCs is the major question. In addition, the lack of accountability along with regulations, control and transparency of PMCs would have a negative impact on human rights and oversight responsibilities. Thus, to maintain competition and quality the industry should have clear mechanisms.

As long as war exists, so will a demand for soldiers for hire. The private military industry would continue to benefit from any slack given by traditional forms of security. However, its emergence has raised possibilities and questions. The history indicates that they will continue to play a significant role in the security environment. Consequently, no policy toward the private military industry could be effective without a clear understanding of the industry, its dynamics, and its challenges.

I. INTRODUCTION

A. BACKGROUND

In 2003, Peter Singer stated that the Private Military Industry had several hundred companies, operating in over 100 countries on six continents, and over \$100 billion in annual global revenue.¹ Today, owing to the Iraq war, the industry has grown more than any one ever imagined. Military industry is a fact of life; present from ancient times, sometimes called mercenaries or condottieri, military industrialists have been there. In the last two decades of the last century, this old profession has been transformed into the Private Military Company, a legally chartered company or corporation organized along business lines and engaged in military operations across the spectrum of conflict.² This professional report explores the dynamics of this industry, including its economic, legal, ethical, and entrepreneurial aspects.

B. PURPOSE

The purpose of this MBA Professional Report is to give a better understanding of Private Military Industry in order for governments, the international community and other prospective clients to achieve desired outcomes from the industry. This report gives a brief history of the use of private military, analyzes the industry, and gives a brief overview of legal and, ethical considerations and entrepreneurial aspects.

C. RESEARCH QUESTIONS

This project tries to answer these questions:

What are the basic economics of Private Military Industry? Are the industry economics likely to change? What are some competencies of the industry?

After answering this question, this project considers the ethical and legal status involved with the use of private military and attempts to answer the question:

¹ P. W. Singer, *Peacekeepers, Inc.* Hoover Institute, (2003), 61.

² E. B. Smith, *The New Condottieri and US Policy: The Privatization of Conflict and its Implications*, Vol. 32 (Carlisle Barracks, Pa.: U.S. Army War College, 2002), 105.

What are the ethics of employing PMCs? How might democratic state governments employ PMCs ethically?

Then, this project focuses on the entrepreneurial side of the industry and asks the question:

To what extent is a PMC an entrepreneurial activity? For whom?

D. METHODOLOGY

The research methodology of this report consists of four components. First is the examination of history concerning private military, including mercenaries, condottieri, etc. The second component is an analysis of private military industry by using Porter's "Five Forces analysis," driving factors of industry and any sub-factors within these areas and the competency of some key players. The analysis also includes non-market industry analysis. The third component focuses on legal and ethical considerations, expressed by the numerous authors and industry experts, and the use of private military companies. The last component is an analysis of the entrepreneurship of industry players, including governments and other non-profit organizations.

E. ORGANIZATION

Chapter I is an overview of this MBA Professional Report and lays out the roadmap of the research.

Chapter II provides a broad overview of the history of private military and gives definitions and industry classification that will be used throughout the report.

Chapter III is an integrated strategy analysis of the industry. The focus of the analysis is on Porter's "Five Forces analysis" as well as non-market components and answers the first research question.

Chapter IV provides a brief overview of the legal and ethical considerations that arise with the use of private military and answers the second research question.

Chapter V examines the use of private military by democratic state governments including economic motivations, and the political and military exigencies.

Chapter VI answers the third research question by analyzing the entrepreneurial approaches of key players in the industry.

Chapter VII summarizes the findings and presents recommendations for further research and study.

F. BENEFITS OF STUDY

The primary benefit of this report is to understand the dynamics of Private Military Industry. This professional report gathers previous research on the industry into a research topic that has not yet been addressed in any body of work to be found. The project provides a better understanding of the industry for future researchers as well as existing and prospective industry actors.

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II. BACKGROUND OF PRIVATE MILITARY INDUSTRY

A. INTRODUCTION

Hiring soldiers to fight battles is not a new phenomenon. Until recently, the use of hired soldiers drew little attention because it was accepted as normal practice.³ Throughout the history, “mercenaries” or hired foreign soldiers were the specialized individuals or entities in warfare. Many kings and princes, trying to extend their control over new lands, used hired soldiers and thus saved themselves from raising larger armies.⁴ Unstable conditions or disorder in a kingdom or state meant prosperity for mercenaries, and they found no shortage of work. Whatever the conditions within which they prospered, the important motive for mercenaries and other forms of hired soldiers was profit. Throughout history, the participants in war were often for-profit private entities loyal to no one government.⁵ According to Peter Singer, one type of these private entrants was individual foreigners, brought in to fight for whichever side bid the highest, and the second type came in the form of highly organized entities.⁶

Their proven success in most cases increased the use of these privatized soldiers until the late 1800s, by which time conscript and standing armies had replaced ad hoc military formations,⁷ whereupon states started to be seen as the centers of military power. Singer argues that the mass army that began to take the field was both a cause and effect; numerical advantage mattered more and helped large armies expand territorially, and this expansion required more resources that led to the practice of taxation.⁸

³ D. Shearer, *Private Armies and Military Intervention*, ed. G. Segal (New York: Oxford University Press Inc., 1998), 13.

⁴ Smith, *The New Condottieri and US Policy: The Privatization of Conflict and its Implications*, 105.

⁵ P.W. Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 19.

⁶ *Ibid.*, 19.

⁷ Shearer, *Private Armies and Military Intervention*, 14.

⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 30.

Although the monopoly of the state over violence has existed during the last two centuries, so have hired soldiers. The first form of hired soldiers in the modern state system was the charter company, such as the Dutch East India Company and the English East India Company, which started to operate in the early 17th century and lasted more than two centuries.⁹ By the twentieth century, state sovereignty became the norm, the charter companies were largely gone¹⁰ and moral questions surrounding the use of hired soldiers began to be asked.

The second form was the individuals and groups of the decolonization period starting from the 1950s and 1960s. Colonial interests, mostly in Africa, funded these mercenaries and they were employed in order to assert the newly won independence, to maintain control over strategic regions and to destabilize countries regarded as being within the sphere of influence of the Soviet Union.¹¹ The use of these military groups became a symbol of racism, and further strengthened international opinion against private military.¹²

The last form of hired soldiers, the Private Military Company (PMC), the corporate evolution of the age-old mercenary profession¹³, emerged in the 1990s. PMCs have started to sell their expertise and manpower to those who need it.¹⁴ Their emergence was driven by three dynamics: the end of Cold War, transformations in the nature of warfare, and the trend toward privatization and outsourcing of government functions.¹⁵ Demobilization has released a new labor pool of over 6 million¹⁶ former soldiers on to the job market; warfare has become more sophisticated due to technological

⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 34.

¹⁰ Ibid., 37.

¹¹ X. Renou, "Private Military Companies against Development," *Oxford Development Studies* 33, no. 1 (2005), 110.

¹² Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 37.

¹³ P. W. Singer, *Outsourcing War*, Vol. 84 (Council on Foreign Relations, Inc., 2005), 120.

¹⁴ S. Creehan, *Soldiers of Fortune 500: International Mercenaries*, *Harvard International Review* Vol. 23, (2002), 6.

¹⁵ Singer, *Outsourcing War*, 120.

¹⁶ Singer, *Peacekeepers, Inc.*, 61.

achievements, and has fallen under the principals of financial management,¹⁷ and the privatization of nation-state core functions once considered to be basic, such as schools, prisons and welfare programs, became the normative way of governing the state.

B. MERCENARIES IN GENERAL

The concept of mercenary is itself a major source of dispute and mercenary activity has been an illegitimate practice since the late 19th century.¹⁸ Webster's Dictionary gives the definition of mercenary as "one that serves merely for wages; *especially*: a soldier hired into foreign service."¹⁹ In his book, after discussing some critical facets of the mercenary, Singer gives the following table on the definition of mercenary.²⁰

Table 1. What Makes a Mercenary? (From: Singer, P.W. *Corporate Warriors: The Rise of the Privatized Military Industry*)

<i>Foreign</i>	: A mercenary is not a citizen or resident of the state in which he or she is fighting
<i>Independence</i>	: A mercenary is not integrated (for the long term) into any national force and is bound only by the contractual ties of a limited employee
<i>Motivation</i>	: A mercenary fights for individual short-term economic reward, not for political or religious goals
<i>Recruitment</i>	: Mercenaries are brought in by oblique and circuitous ways to avoid legal prosecution
<i>Organization</i>	: Mercenary units are temporary and ad-hoc groupings of individual soldiers
<i>Services</i>	: Lacking prior organization, mercenaries focus on just combat service, for single clients

¹⁷ Renou, *Private Military Companies against Development*, 108.

¹⁸ A. Leander, *Eroding State Authority? Private Military Companies and the Legitimate Use of Power* (Roma: Centro Militare di Studi Strategici, 2006), 66, <http://se1.isn.ch/serviceengine/FileContent?serviceID=PublishingHouse&fileid=AADBFBF0-1696-74CC-A1BD-1FAE43708D62&lng=en> (accessed 12/03/2006).

¹⁹ Merriam-Webster's Online Dictionary, <http://www.webster.com/dictionary/mercenary> (accessed 11/04/2006).

²⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 43.

Article 47 of the 1977 Additional Protocol I of the Geneva Conventions provides the most commonly accepted definition of mercenaries. According to Article 47:²¹

Table 2. Article 47 of the 1977 Additional Protocol I of the Geneva Conventions. (From: Office of the United Nations High Commissioner for Human Rights website)

A mercenary is any person who:
(a) is specially recruited locally or abroad in order to fight in an armed conflict;
(b) does, in fact, take a direct part in the hostilities;
(c) is motivated to take part in the hostilities essentially by the desire for private gain and, in fact, is promised, by or on behalf of a Party to the conflict, material compensation substantially in excess of that promised or paid to combatants of similar ranks and functions in the armed forces of that Party;
(d) is neither a national of a Party to the conflict nor a resident of territory controlled by a Party to the conflict;
(e) is not a member of the armed forces of a Party to the conflict; and
(f) has not been sent by a State which is not a Party to the conflict on official duty as a member of its armed forces.

In 1989, the definition of mercenary was broadened in Resolution 44/34 of the International Convention against the Recruitment, Use, Financing and Training of Mercenaries as follows:²²

²¹ “International Convention Against the Recruitment, Use, Financing and Training of Mercenaries,” Office of the United Nations High Commissioner for Human Rights, <http://www.ohchr.org/english/law/mercenaries.htm> (accessed 11/15/2006).

²² “Protocol Additional to the Geneva Conventions of 12 August 1949, and Relating to the Protection of Victims of International Armed Conflicts (Protocol 1),” <http://www.ohchr.org/english/law/protocol1.htm> (accessed 11/17/2006).

Table 3. Protocol Additional to the Geneva Conventions of 12 August 1949, and relating to the Protection of Victims of International Armed Conflicts (Protocol 1). (From: Office of the United Nations High Commissioner for Human Rights website)

1. A mercenary is any person who:
 - (a) is specially recruited locally or abroad in order to fight in an armed conflict;
 - (b) is motivated to take part in the hostilities essentially by the desire for private gain and, in fact, is promised, by or on behalf of a party to the conflict, material compensation substantially in excess of that promised or paid to combatants of similar rank and functions in the armed forces of that party;
 - (c) is neither a national of a party to the conflict nor a resident of territory controlled by a party to the conflict;
 - (d) is not a member of the armed forces of a party to the conflict; and
 - (e) has not been sent by a State which is not a party to the conflict on official duty as a member of its armed forces.
2. A mercenary is also any person who, in any other situation:
 - (a) is specially recruited locally or abroad for the purpose of participating in a concerted act of violence aimed at:
 - (i) overthrowing a Government or otherwise undermining the constitutional order of a State; or
 - (ii) undermining the territorial integrity of a State;
 - (b) is motivated to take part therein essentially by the desire for significant private gain and is prompted by the promise or payment of material compensation;
 - (c) is neither a national nor a resident of the State against which such an act is directed;
 - (d) has not been sent by a State on official duty; and
 - (e) is not a member of the armed forces of the State on whose territory the act is undertaken.

Although this is the most widely accepted international definition of a mercenary, it is not definitive, because many countries on the globe are not signatories to the Additional Protocol.

In historical context, mercenaries were the private actors in warfare, together with other past private military ventures. They came in various sizes, relative power, locations, and names. Sometimes they were called free companies, privateers, or chartered

companies. They were in Egypt, in America and on the high seas, and numbered from a few soldiers to sometimes thousands. However, they were always foreign and motivated principally by financial gain. By the twentieth century, the state system and the concept of state sovereignty weakened the use of mercenaries. As David Shearer notes, “these forces were considered legitimate since they were integrated into national armies,” and “mercenary activity remained largely peripheral to the strategic interests of the superpowers.”²³

Then, in the 1990s, a unique business form that Singer named “privatized military firm (PMF)”²⁴ was seen in warfare. These firms²⁵ specialized in providing all types of military services, and due to their similarity to mercenaries were widely seen as illegal.

C. EARLY TIMES OF PRIVATE MILITARY

1. In Ancient History

The first official record of mercenary use in warfare is at the Battle of Kadesh (1294 BC), fought between Hittites and Egyptians, in which Pharaoh Ramses II employed Numidians in his army, and a portion of the Hittite troops, ruled by king Muwatallish, was formed of an infantry of mercenaries and vassals.²⁶

It was also a general practice for ancient Greek city-state armies to form their forces by hiring outside specialists, although a few city-states had citizen armies.²⁷ The soldiers who fought in long campaigns were the backbone of the economy and needed at home, and the use of mercenaries, including fleets, therefore became the practice.²⁸

²³ Shearer, *Private Armies and Military Intervention*, 16.

²⁴ P. W. Singer, “Corporate Warriors: The Rise of the Privatized Military Industry and its Ramifications for International Security,” *International Security* 26, no. 3 (2001), 186, http://muse.jhu.edu/journals/international_security/v026/26.3singer.html. (accessed 12/11/2006)

²⁵ Singer argues that the term “privatized military firm (PMF)” refers the overall industry, whereas the term “private military company (PMC) or private security company (PSC)” used by many analysts only refers to firms that offer tactical military services. Because it is not the primary aim of this project to distinguish such terms, these terms will be used interchangeably.

²⁶ J. D. Heskett, “The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis” (MBA, Naval Postgraduate School), 7.

²⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 20-21.

²⁸ Heskett, *The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis*, 8.

The Macedonian army under Alexander the Great was primarily made up of hired soldiers and a 224-ship fleet contracted from Phoenicians.²⁹ Later, the Carthaginian Empire depended heavily on hired soldiers from Spain, Gaul, Italy, Greece, and Numidia.³⁰ Although early Rome had a citizen army, as the empire grew it became relatively harder to recruit native Romans and mercenaries were hired from the economically backward areas of the ancient world. Thenceforth, the imperial army was more Germanic than Roman.³¹

In his book, Singer gives an example of how the Bible, too, includes instances of mercenary use: “The Pharaoh chased the Israelites out of Egypt with an army that included hired foreigners, while David and his men (when they were on the run From Saul) were employed in the Philistine army of Achish.”³²

When it was hard to maintain regular standing armies, trained soldiers filled the gap. These soldiers were an important component of the warring forces and were vital to the economies of their families, their tribes or civilizations. As early as the first civilizations, hired soldiers organized themselves to gain their livelihoods by marketing their relative efficiency in the use of force, locally or in better markets.³³

2. The Middle Ages

The system of feudalism developed in Europe after the Roman Empire fell and feudal rulers used foreign troops both at home and abroad, up to the limit that they could afford. The nature of warfare required quality and skilled soldiers much more than before. Rulers, then, began to charge *scutagium* (shield money, the cost of equipping a

²⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 21.

³⁰ Heskett, *The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis*, 9.

³¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 21.

³² *Ibid.*, 20.

³³ P. W. Singer, “Corporate Warriors: The Privatized Military Industry” (PhD, Harvard University), 39, http://libproxy.nps.navy.mil/login?url=http://proquest.umi.com.libproxy.nps.navy.mil/pqdweb?did=726020_761&sid=1&Fmt=2&clientId=11969&RQT=309&VName=PQD (accessed 11/23/2006).

fighting man) and used this money to hire mercenaries.³⁴ Then, every officer, collecting recruits for a government and making his living, was an entrepreneur, a businessman great or small.³⁵

By the thirteenth century, urban-based commercial economies caused the emergence of trading companies and banking in Europe, both of which put money in people's hand, established a system of money lending and fostered the '*condotta*' (contract) system. By the end of the 14th century, hired soldiers constituted a major trade, especially one of the first to establish a European market.³⁶ When contracting out military services to private units was seen as reasonable, the most efficient citizens were kept from warfare, and a typical soldier was no longer an ordinary citizen.³⁷

a. Free Companies

During the unstable period of the Hundred Years War (1337-1453), which Singer likens to the post-Cold War era, the absence of centralized control created an optimal situation for mercenaries.³⁸ The early European use of organized mercenaries was in the form of private organizations, 'Free Companies' (vagabond mercenary soldiers),³⁹ or 'Free Lances' (the origin of the modern business term) that acted as corporate entities by hiring themselves out. These evolved from temporary organizations, essentially bands of soldiers, into permanent military and economic organizations signing agreements, *condotta*, in a highly detailed fashion.⁴⁰ Free companies evolved from bands of soldiers, looking for employment to protect themselves and localities that paid for their service.

³⁴ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 23.

³⁵ V. G. Kiernan, "Foreign Mercenaries and Absolute Monarchy," *Past and Present*, no. 11 (1957), 77, <http://links.jstor.org/sici?sici=0031-2746%28195704%290%3A11%3C66%3AFMAAM%3E2.0.CO%3B2-H> (accessed 12/04/2006).

³⁶ *Ibid.*, 69.

³⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 22.

³⁸ Singer, *Corporate Warriors: The Privatized Military Industry*, 47.

³⁹ A. Mockler, *The New Mercenaries* (New York: Paragon House, 1987), 9.

⁴⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 24.

However, the taking of prisoners for handsome ransoms, and extending of battles to lengthen service times caused Machiavelli's accusation of only fighting "bloodless battles."⁴¹ Because there was no employment for these companies whenever the fighting stopped, they fought whenever possible. Rulers began to realize the dangers of free companies and attempted to wipe them out. For instance, "in 1445 towards the end of the Hundred Years War Charles VII took the first step towards a standing army by embodying, out of the old feudal mass that had answered the *ban* and *arrière-ban*, the *compagnies d'ordonnance*: each company made up of 100 "lances," units of one heavy-armed horseman (*gendarme*) with two or three footmen or mounted infantry."⁴²

b. *Condottieri*

Italian states, enriched by their trade with the Orient and with an increase in allegiance, recruited only native Italians with a contract, or *condotta*, from mercenary captain contractors, or *condottieri*⁴³ (literally, military contractors) ⁴⁴, persons who offered their services to the highest bidder. In his work, Heskett summarized three basic types of *condottas*. The first one was a *Condotta a soldo disteso*, a native-born captain called for active service; the second one was a *Condotta a mezzo soldo*, not as strict as the first with permission to roam, plunder and raid the enemy's land for the *condottieri*; and the last one was a *Condotta in aspetto*, a peace time *condottieri* paid just to maintain his loyalty.⁴⁵ Each *condotta* outlined every detail of the contract from duration of service to the type of soldiers to be used.

c. *The Swiss and the German Landsknecht*

The poor Swiss forest cantons, starting from their resistance to foreign rule in 1291, evolved a highly specialized fighting form, the Swiss pike square, which ended

⁴¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 25.

⁴² Kiernan, *Foreign Mercenaries and Absolute Monarchy*, 67.

⁴³ Heskett, *The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis*, 14.

⁴⁴ Smith, *The New Condottieri and US Policy: The Privatization of Conflict and its Implications*, 105.

⁴⁵ Heskett, *The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis*, 15.

the dominance of the mounted knight on the European battlefield.⁴⁶ Their effectiveness brought renown to these Swiss units, and in 1502, Pope Julius II hired a contingent. This unit, the Swiss Guards, serves the Vatican to this day.⁴⁷ Singer states this “mercenary work became something of a national industry for the Swiss.”⁴⁸

The success of the Swiss helped new ventures copy and market new units. With quite low entry barriers to the market,⁴⁹ the German *landsknechts*, foot soldiers of the plains,⁵⁰ emulated their Swiss neighbors; the two groups later became rivals both on the battlefield and in the mercenary market. While the Swiss mostly linked with France, the *landsknechts* were found everywhere, due to their internal solidarity, lower cost and readiness to take firearms, (i.e., the mounted arquebusier and the *Schwartzreiter*, a mounted pistoleer).⁵¹ For the *landsknechts*, war was purely a business proposition.⁵²

d. Far East: China, India, and Japan

Not only Europeans used mercenaries in their battles; the Far East too has a rich history of mercenary use, from Chinese Sung dynasty (960-1279) where Huns and Mongols were employed⁵³, to the chartered companies of India and to their Japanese mercenaries hired in the 1700s.⁵⁴

Because the chartered companies were usually formed under the patronage of one state that issued its charter, and mostly emerged before and during the standing military armies, but lasted nearly more than two centuries, it would be better to include these companies in the next section.

⁴⁶ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 26.

⁴⁷ A. Mockler, *The Mercenaries* (New York: Macmillan, 1970), 101.

⁴⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 27.

⁴⁹ *Ibid.*, 27.

⁵⁰ Mockler, *The Mercenaries*, 100.

⁵¹ Kiernan, *Foreign Mercenaries and Absolute Monarchy*, 71.

⁵² Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 37.

⁵³ Heskett, *The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis*, 17.

⁵⁴ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 35.

D. MODERN DAY PRIVATE MILITARY

1. Standing State Armies

The emergence of the European state system started after the Peace of Westphalia in 1648 when states began to understand the importance of sovereignty. The Napoleonic wars at the end of the eighteenth century marked the point where this sovereignty was expressed in the replacement of hired armies of foreigners by standing state armies made up of citizens.⁵⁵

The mercenary trade remained legitimate during the 1700s, when a typical European army was a mix of hired soldiers and citizens, although the trends were against it. The economically weakest powers, which hired out their own militaries to fight others' wars, like the troops of *Hesse-Kassel*, ("*Hessians*") that the British government hired to use over the Atlantic,⁵⁶ entered the new internationalized military market. On the other hand, in the wake of the French Revolution powerful states moved towards a small but professional army. France was the first to experiment with a citizen army, Prussia was the model for it, and Britain was the last major power to eschew the use of mercenaries.⁵⁷

Several forces caused the suppression of mercenaries. Smith lists these factors as the inability of states to regulate private military corporations as the concept of sovereignty matured; the increased use of more technologically sophisticated weapons required dedicated, full-time professionals who were well trained; a degree of discipline not found previously in mercenaries; and at the same time, development of the ability to recruit, train, pay, and maintain a full-time force by the states.⁵⁸ Deborah Avant articulates two ideational changes with the motif of the Enlightenment: the development of the social contract and the prestige of the natural sciences or natural philosophy as a new way of thinking about the relationship between states and soldiers.⁵⁹ Singer adds the

⁵⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 27.

⁵⁶ *Ibid.*, 33.

⁵⁷ D. D. Avant, "From Mercenaries to Citizen Armies: Explaining Change in the Practice of War," *International Organization* 54, no. 1 (2000), 42.

⁵⁸ Smith, *The New Condottieri and US Policy: The Privatization of Conflict and its Implications*, 107.

⁵⁹ Avant, *From Mercenaries to Citizen Armies: Explaining Change in the Practice of War*, 44.

economic rationale behind the decline in use of mercenaries in that the costs of disbanding and reenlisting hired forces, and the requirement of numerical advantage on the battlefield, meant that the larger state armies could advance quicker and easier than mercenary forces.⁶⁰

2. Charter Companies

While the new state started to rest on a new kind of army, starting from the 1600s until the mid-nineteenth century a new military business venture⁶¹ emerged mainly (though not exclusively) in India. These new ventures were formed by groups of European investors to underwrite and profit from the exploration of Africa, India, and the Caribbean, and were licensed to have monopoly power over trade within a designated area, enabling states to use joint-stock companies for exploration and trade beyond the limited resources of their treasury without the uncertainties of engaging in risky, large-scale activities in distant lands.⁶²

Carlos and Nicholas relate these trading companies to the modern business organizations, “since a hierarchy of salaried managers coordinated the flow of goods, services, and information over long distances, and administrative mechanisms were designed to extend headquarter control over managers in overseas offices.”⁶³ They also argue that although these companies differed in certain characteristics – date of charter, size, and location of trade – they were similar business organizations. The seventeenth and early eighteenth centuries were periods of experimentation in business form, yet all of these companies chose the same methods to lower the costs of doing business

⁶⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 30.

⁶¹ Ibid., 34.

⁶² Ibid.

⁶³ A. M. Carlos and S. Nicholas, “Theory and History: Seventeenth-Century Joint-Stock Chartered Trading Companies,” *The Journal of Economic History* 56, no. 4 (1996), 916, <http://links.jstor.org/sici?sici=0022-0507%28199612%2956%3A4%3C916%3ATAHSJC%3E2.0.CO%3B2-M> (accessed 12/12/2006).

internationally, vertical integration to conduct their business rather than through the market, and the less costly way of operating by managerial fiat inside the firm.⁶⁴

Some renowned chartered companies were “the Muscovy Company, chartered in 1553 and disbanded in 1746, the East India Company, chartered in 1600 and wound up in 1858, the Dutch East India Company, chartered in 1602 and dissolved in 1799, the Hudson’s Bay Company, chartered in 1670 and still operating, and the Royal African Company, chartered in 1672 and disbanded about 1712.”⁶⁵

On the other hand, despite the fact that they were under the control of their license back home, they acted to protect their own interests by building forts and recruiting mercenary armies of their own that dwarfed even the average European state's armed forces. They hired a wide variety of troops – e.g., Sepoys, German, and Japanese – by the thousands. Even though military activities were an essential part of doing business to improve profits, they engaged in activities that were contrary to their home government’s interests, as in the case of the English East India Company’s attack on Portuguese garrisons in India despite government orders.⁶⁶

3. Twentieth Century Private Military

By the twentieth century, only a few chartered companies were in the business and in control over some locations, such as Nissia and Mozambique Company’s control in Mozambique until the 1930s.⁶⁷ Once the state system and the concept of sovereignty spread across the globe, agents who profited from the existence of conflict were increasingly seen as contrary to the new order, and their activities as violating the new neutrality laws of state; as a consequence, the international trade in military services was marginalized and mostly pushed underground.⁶⁸

⁶⁴ A. M. Carlos and S. Nicholas, ““Giants of an Earlier Capitalism”: The Chartered Trading Companies as Modern Multinationals,” *The Business History Review* 62, no. 3 (1988), 404, <http://links.jstor.org/sici?sici=0007-6805%28198823%2962%3A3%3C398%3A%22OAECT%3E2.0.CO%3B2-U> (accessed 12/12/2006).

⁶⁵ Carlos and Nicholas, “*Giants of an Earlier Capitalism*”: *The Chartered Trading Companies as Modern Multinationals*, 403.

⁶⁶ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 33-34, 36.

⁶⁷ *Ibid.*, 37.

⁶⁸ Singer, *Corporate Warriors: The Privatized Military Industry*, 79.

Thompson states that “[c]ontemporary mercenarism takes one of four forms [in the twentieth century]. First, foreigners may be permanently employed, thus constituting a portion of the state’s regular army. [That individual and volunteer foreigners permanently join without their home state complicities is one variant, and recruitment under an interstate treaty or contract between two nations is another]. Third, individual foreigners may be hired directly by a state for use in a particular conflict... [and fourth] a state may pay a per capita charge for the use of another state’s troops.”⁶⁹

The first version is the Foreign Legion, which Mockler defines as “the anarchic tradition [that] is combined with the military virtues in war inherited from other strand in the mercenary make-up, the Swiss tradition, and with loyalty both to an idea and to a direct commander but not to a political leader.”⁷⁰ The most famous example is the French Foreign Legion which was raised by decree in 1831 for the purpose of sending large numbers of stateless persons who had started to arrive in France after the Napoleonic Wars to fight in Algeria.⁷¹

The best example of the second form is the Nepalese Gurkhas employed by Britain, from 1816 with the Treaty of Segauli. In 1947, Gurkha forces divided between Britain and India, and continue to serve both countries.⁷² The interesting fact about the Gurkhas is that although they serve only two nations, they have fought in almost every major war of the world, on every continent.⁷³ Under the present-day international laws, French Foreign Legionnaires and Gurkhas, for example, are not treated as mercenaries but are fully integrated soldiers in the militaries of their respective countries.

Africa has been the site of the most publicized cases of third form ad hoc mercenary forces. Singer argues that these ad hoc forces formed by individual ex-soldiers

⁶⁹ J. E. Thompson, *Mercenaries, Pirates, and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe* (Princeton, New Jersey: Princeton University Press, 1994), 89-90.

⁷⁰ Mockler, *The New Mercenaries*, 29.

⁷¹ T. Spicer, *An Unorthodox Soldier: Peace and War and the Sandline Affair* (Mainstream, 1999), 34.

⁷² Thompson, *Mercenaries, Pirates, and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe*, 90-91.

⁷³ “Gurkha Manpower Services: About the Gurkhas,” http://www.gurkhamanpower.com/gms_aboutthegurkhas.ikml (accessed 12/10/2006).

“would hire themselves out on an informal basis, usually to rebel groups, or businesses operating in weak state zones, such as Latin America, China, and, later, Africa. Many were swashbucklers in the mold of a by-gone era, interested more in the adventurer’s lifestyle, than in long-term results. As individual operators, few had the capacity to alter the final outcome of the battles they fought.”⁷⁴ In the second half of the century, these individuals, for example, were hired by mining firms, (as in Congo’s Katanga secession in the 1960s), by rebel groups, (as in the Seychelles or Comoros Islands in the 1970s),⁷⁵ or even by federal governments, (as in Nigerian Civil War of 1967-70).⁷⁶

The fourth form, reimbursement of a second state for the use of its forces, was done by the United States during the Vietnam War. For the use of their troops, the U.S. made contracts with South Korea, Thailand, and the Philippines to pay a per diem for each soldier plus an additional allowance according to rank. Additionally, the U.S. agreed to pay all expenses related to deploying forces.⁷⁷

On the whole, in the twentieth century, (excluding the new private military industry of the last two decades), hired foreign soldiers continued to be used mostly on an ad hoc basis. The main reason behind mercenarism’s persistence in the last century was the broken-down governance and legal systems in many areas around the globe. Also, the profit motive for the ex-soldier predominated.⁷⁸

4. Private Military Industry

Towards the end of the twentieth century, an increase in regional and intrastate conflicts created many failed or failing states that could not maintain internal order. At the same time, fueled by the end of Cold-War confrontations, Western countries were more reluctant to intervene militarily in such areas, and politicians were unenthusiastic

⁷⁴ Singer, *Corporate Warriors: The Privatized Military Industry*, 79.

⁷⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 37.

⁷⁶ Thompson, *Mercenaries, Pirates, and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe*, 93.

⁷⁷ Ibid., 94.

⁷⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 43.

about explaining casualties to their electorates.⁷⁹ Also, most Western armies were neither trained nor equipped for low-intensity wars. On the other hand, non-state actors having the ability to challenge world society began to increase in number, power, and stature. When the Cold-War era ended, the United States and the Soviet Union, together with their allies, were forced to downsize, and world armies shrank by more than 6 million personnel. Meanwhile, most militaries were reliant on off-the-shelf commercial technology, by and large maintained and operated by private firms. Finally, the last two decades of the century was marked by a normative shift toward the privatization of state functions, hand in hand with globalization.⁸⁰ These two forces caused the increase of supply in the global security market, and concomitant with the increase in supply was an increase in the demand.⁸¹

Into this niche have stepped private military companies with commercial goals of improving their clients' military capabilities and strengthening their combat performance and deterrence capabilities.⁸² These companies started to provide military and security services – including some that have been considered core military capabilities – to states, international organizations, NGOs, global corporations, and wealthy individuals. Also, changes in the nature of warfare had had brought certain tasks central to the core of modern militaries closer to the front and center, and private military companies provided these services readily. As a result, a burgeoning transnational market for force emerged alongside the system of states and state forces. Since the 11 September terrorist attacks, the global war on terrorism has offered even greater opportunities to the industry.⁸³

⁷⁹ S. Brayton, "Outsourcing War: Mercenaries and the Privatization of Peacekeeping," *Journal of International Affairs* 55, no. 2 (2002), 308.

⁸⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry and its Ramifications for International Security*, 194-198.

⁸¹ D. D. Avant, *The Market for Force: The Consequences of Privatizing Security* (New York: Cambridge University Press, 2005), 31.

⁸² Brayton, *Outsourcing War: Mercenaries and the Privatization of Peacekeeping*, 309-310.

⁸³ Avant, *The Market for Force: The Consequences of Privatizing Security*, 3-8.

The industry is not an overly capital-intensive sector; barriers to entry are relatively low; all necessary tools of the trade are readily available on the open international market; and labor input is relatively cheap. Its expansion has been acyclical, with revenues continually rising. Similar to Internet firms, most PMCs limit their expenditure on fixed assets. The overall number of firms is in the high hundreds, with market capitalizations reaching to 20 billion dollars.⁸⁴ Anna Leander quotes that “The annual revenue of the private military industry has increased from \$55.6 billion in 1990 to \$100 billion in 2000 and it is expected to double again and reach \$202 billion by 2010.”⁸⁵ Many of the companies in the industry also have close ties to their home governments, because of the business advantages.⁸⁶

However, as the industry has emerged, it has raised many problems and questions. Some critics argue that this market is the unleashing of another round of mercenaries, while others claim that it is the further extension of privatization into the sphere of national security.⁸⁷ Singer gives the following table to show PMCs’ difference from mercenaries:⁸⁸

Table 4. How Are PMFs Different? (From: Singer, P.W. *Corporate Warriors: The Rise of the Privatized Military Industry*)

Organization	: Prior Corporate Structure
Motives	: Business Profit-Driven, Rather than Individual Profit-Driven
Open Market	: Legal, Public Entities
Services	: Wider Range, Varied Clientele
Recruitment	: Public, Specialized
Linkages	: Ties to Corporate Holdings and Financial Markets

⁸⁴ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry and its Ramifications for International Security*, 198-200.

⁸⁵ International Consortium of Investigative Journalists (ICIJ), *Privatizing Combat, the New World Order*, (Washington D. C.: The Centre for Public Integrity, 2002): 5 [http://www.publicintegrity.org/bow] (accessed 29 April 2005), quoted in A. Leander, “The Power to Construct International Security: On the Significance of Private Military Companies,” *Millennium: Journal of International Studies* 33, no. 3 (2005), 806.

⁸⁶ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 48.

⁸⁷ Avant, *The Market for Force: The Consequences of Privatizing Security*, 22.

⁸⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 47.

Also, a few claim that these companies are “front companies” or covert public entities for the reigning world powers rather than private companies.⁸⁹ These considerations of the legitimacy of PMCs will be examined in the fourth chapter.

E. PRIVATE MILITARY COMPANY DEFINITION AND PRIVATE MILITARY INDUSTRY CLASSIFICATION

1. Private Military Company Definition

As discussed previously, a debate exists over the identification of terms among Private Military Company (PMC), Privatized Military Firm (PMF), and Private Security Company (PSC). The distinction between terms is hard to maintain, though, given the variety of services that a company may provide. In order to cover the whole of the services given, the definition of Private Military Company (PMC) will be used as a common descriptor of these companies.

Singer defines PMC as the “corporate [body] that specialize in the provision of military skills – including tactical combat operations, strategic planning, intelligence gathering and analysis, operational support, troop training, and military technical assistance.”⁹⁰

2. Private Military Industry Classification

The main reason behind the requirement of an industry classification is that not all PMCs in the industry look alike, nor do they serve the same market. One way to distinguish firms is by the general level of their activities. Then, some firms are termed ‘passive’, whereas some others are ‘active’ according to their operations. Another attempt has used boundaries drawn from general political science, and the delineating line is whether a company is purely international or domestic in its orientation. The third classification system is the explanation of the company’s services with offense-defense

⁸⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 48.

⁹⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry and its Ramifications for International Security*, 186.

theory (ODT) that questions whether the company's services bolster or deter aggression.⁹¹ However, none of the classification attempts adequately covers the PMC's unique business-military cross.

Peter Singer has given a better classification in his book, "*Corporate Warriors: The Rise of the Privatized Military Industry*." The classification utilizes the industry duality of having both military and economic elements. According to this classification, companies are disaggregated according to the relationship between the range of primary services and level of force that they are able to offer.⁹² It uses the "tip of the spear" metaphor, an analogy used in military context. This typology distinguishes the units by their location on the battlefield, and, then, organizes military companies by the services offered by their equivalent military organizations. This categorization allows for useful cross-field parallels between military organizations and military companies. Companies closest to the tip of the spear, or the actual front line, are called military providers, and those far from the tip of the spear are called military support.⁹³ Between them is the military consulting firm, which is somewhat unique in the military context; although many military units provide training, advisory service by a military organization is uncommon.

Singer further classifies firms into a three-tier model. Type-one firms provide implementation and command services on the tactical level. Typical clients of this segment are those with comparatively low military capabilities, faced with immediate, high-threat situations. Type-two firms offer advice, training, and restructuring of clients' military forces. Their typical client portfolio includes those that require military structuring, or an increase in capabilities. Type-three firms provide rear-echelon and supplementary services, including non-lethal aid and logistics, intelligence, technical support, supply, and transportation assistance. Because their often-mundane operations appear less mercenary to the public, they are generally regarded as traditional contractors.

⁹¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 89-91.

⁹² Ibid., 91.

⁹³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry and its Ramifications for International Security*, 201.

However, they fulfill functional needs critical to overall combat operations. The most common clients are those engaged in immediate, but long-duration, interventions.⁹⁴

F. CONCLUSION

The common sense of the controlling, sanctioning, and using of violence would seem to require that states avoid using PMCs. Nonetheless, history is full of examples of the use of paid foreign forces. The use of hired soldiers, or mercenaries, made sense both economically and tactically to rulers who lacked the capability to fight, and those willing to pay mercenaries created the demand. Those mercenaries, in turn, offered their war-fighting skills (the supply) for security. It is clear that as long as there is demand for their use, they will provide their services.

Since states took over the means of violence in the 1600s, military services have mostly been kept under the control of the public sector. But, the use of mercenaries has not been wiped out completely. The nature of using paid foreign forces has significantly changed, especially in the late twentieth century. A new actor, the Private Military Company adds to the modern battlefield where individuals, corporations, states, and international organizations are supplied not just by public institutions, but also by the non-sovereign private market.⁹⁵

⁹⁴ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 92-100.

⁹⁵ *Ibid.*, 18.

III. INDUSTRY ANALYSIS

A. INTRODUCTION

Although the privatization of modern state force is pervasive, the private military industry that emerged after the Cold War has been deemed aggressive in the eyes of the international community. Yet to better understand and exploit this industry, to the maximum legal and ethical extent, requires a thorough understanding of various aspects. To look into the economics of industry is one approach; other approaches would investigate legal and ethical considerations, use and oversight of force by democratic state governments, and last, but not least (and related to the economic aspect) entrepreneurial activities involved in the way of doing business and policy-making.

Anita McGahan and Michael Porter suggest that industry conditions account for approximately 19 percent of a firm's performance, whereas competitive strategy accounts for 32 percent.⁹⁶ Thus, industry analysis will help companies, researchers, decision-makers and other interest groups to improve their understanding of this new phenomenon.

Today, the arms and munitions industry, or defense industry, is highly dependent on privately held large corporations that design, manufacture, and sell weapon systems to the state militaries. Furthermore, emerging technology requires governments and military forces to have personnel trained on high-tech weapon systems by these companies, and even requires governments to hire specialists to use them. Likewise, most countries outsource many of the non-core capabilities to seek efficiency, cost saving, and privatization as a requirement of a liberal economy. Deborah Avant argues:

Private security companies now provide more services and more kinds of services including some that have been considered core military capabilities in the modern era. Also, changes in the nature of conflicts have led tasks less central to the core of modern militaries (such as operating complex weapons systems and policing) to be closer to the front and center of maintaining security, and private security companies provide

⁹⁶ A. M. McGahan and M. E. Porter, "How Much Does Industry Matter, Really?" *Strategic Management Journal* 18, (1997), 30.

these services readily. Furthermore, states are not the only organizations that hire security providers. Increasingly transnational non-state actors (INGOs, multi-national corporations, and others) are financing security services to accomplish their goals. A burgeoning transnational market for force now exists alongside the system of states and state forces.⁹⁷

In layman's term, private military industry serves in the domain of public goods. However, "the provision of security functions," Jurgen Brauer claims,

is not strictly a matter of public versus private provision but a matter of the degree of combination. In economist's jargon, security is a joint product. It is not a parameter that is either zero (all public) or one (all private). Instead, it is a parameter that ranges between zero and one, each community and country choosing its own parameter according to idiosyncratic circumstances.⁹⁸

Singer quotes,

in other words, the problem when security is a profit driven exercise is that the wealthy are inherently favored. Those portions of society who can afford it will employ the best protection, such as that offered by provider sector firms. Those who cannot afford the protection are often left behind. Not only are the worst threats deflected from the privately protected areas, but also those portions of society that cannot afford protection have to rely on declining, unstable, or nonexistent public means (whose top personnel often shift to the better-paying private side).⁹⁹

Due to the various types of operation in which a PMC could be involved, it is hard to distinguish where a particular PMC is serving on the continuum of private versus public goods. On the other hand, industry structure adds other complexities to the issue, such as structural, political, and economical relations and implications within and outside the industry.

⁹⁷ Avant, *The Market for Force: The Consequences of Privatizing Security*, 3.

⁹⁸ J. Brauer, "An Economic Perspective on Mercenaries, Military Companies, and the Privatization of Force," Augusta State University, <http://www.aug.edu/~sbajmb/paper-cria.PDF> (accessed 12/23/2006).

⁹⁹ Martha Huggins, "Armed and Dangerous" Americas.Org, November 2000. <http://www.americas.org/News/Features/eooo11-Private-Security/index.asp> quoted in Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 227.

B. MARKET, CLUSTERS, AND MARKET SEGMENTATION

1. Market

PMCs are playing increasingly important roles in conflicts. The basic economic relationship between supply and demand, as described in the previous chapter, causes this increase. Avant argues that on the supply side of the factors are the post Cold-War downsizing, reliance on off-the-shelf commercial technology, and the privatization of state functions. On the demand side, are countries seeking to upgrade and westernize their militaries, rulers of failed or weak states no longer propped up by superpower patrons, non-state actors such as private firms, NGOs, different groups in the territories of weak and failed states, and of course western countries that are more dependant on technology with downsized militaries. Then, Avant adds, “[i]t is often the case PMCs started to provide a stop-gap tool for meeting greater demands with smaller forces.”¹⁰⁰ One important point on the growth of demand in the current market is the reluctance of western states to intervene in those more numerous outbreaks of violence in conflict regions because of basic policy considerations.¹⁰¹ In addition, the poor performance of multi-lateral institutions made the private alternatives appear more workable, because of prevailing beliefs about anything private being cheaper and better.¹⁰²

Most of the companies in the industry operate as ‘virtual companies’, similar to e-commerce firms. These companies do not maintain large number of permanent employees and other fixed assets, but rather use databases of qualified personnel and specialized subcontractors.¹⁰³ Avant adds, “[m]ost PSCs operate as databases from which to service contracts and these databases are non-exclusive (individuals often show up on

the rosters of several different companies).”¹⁰⁴ Additionally, because they are service

¹⁰⁰ Avant, *The Market for Force: The Consequences of Privatizing Security*, 30-31,36.

¹⁰¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 58.

¹⁰² Avant, *The Market for Force: The Consequences of Privatizing Security*, 38.

¹⁰³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 75.

¹⁰⁴ Avant, *The Market for Force: The Consequences of Privatizing Security*, 222.

oriented, globally operating companies, they have the ability to move across borders to new countries or transform themselves into new companies, whenever and wherever they choose.¹⁰⁵

In most cases, their operations are contentious and secrecy is often the norm. Even though many have corporate websites to present a positive public image and are seemingly quite transparent, many others try to cover up the scope of their activities by stating proprietary information reasons.¹⁰⁶

Market mechanisms of the private military industry work differently than the hierarchical industries, because its characteristics combined with global forces let it change the military norms and there is nothing to prevent a state (as well as any other entity) from being a buyer if it so desires.¹⁰⁷ Furthermore, large customers such as the United States and United Kingdom (UK) play significant roles in terms of market expansion and supply and demand, and have the ability to affect the market to make their wishes and policies be more fruitful. In addition, companies from these two countries dominate the market. Although their activities appear to be independent commercial enterprises, few of them act outside the national interests of their home states.¹⁰⁸

The ICIJ (International Consortium of Investigative Journalists) states that between 1994 and 2003, the US Department of Defense entered into 3,061 contracts with 12 of the 24 US-based PMCs. These contracts were valued at more than \$300 billion and just two companies held more than 2,700 of those contracts.¹⁰⁹

2. Clusters

Deborah Avant lists PMCs (Appendix A) according to the services they provide and the countries from which their employees are generally drawn.¹¹⁰ The ICIJ gives

¹⁰⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 239.

¹⁰⁶ Singer, preface to *Corporate Warriors: The Rise of the Privatized Military Industry*, ix.

¹⁰⁷ Avant, *The Market for Force: The Consequences of Privatizing Security*, 219-220.

¹⁰⁸ Shearer, *Private Armies and Military Intervention*, 34.

¹⁰⁹ International Consortium of Investigative Journalists, *Making a Killing: The Business of War* (Washington D. C.: Public Integrity Books, 2003), 10.

¹¹⁰ The list in Appendix-A is adapted from Avant, *The Market for Force: The Consequences of Privatizing Security*, 10-15.

another list of PMCs (Appendix B).¹¹¹ Although lists do include defunct companies and do not consider the South African government's regulation on mercenary activities¹¹², it is clear that the United States and UK are the geographical regions of concentration. Based on the information given in the SourceWatch Website¹¹³ (a project of the Center for Media and Democracy to produce a directory of the people, organizations and issues shaping the public agenda) at least 16 of the total 74 companies have headquarters or offices in London, whereas 15 of them are based in and around Washington D.C. (e.g., in Alexandria, Fairfax, and Arlington). PMCs, especially those in the US and UK, are close to the information sources in capital cities, to think tanks, and to standards-setting agencies. London is one of the unofficial centers of the industry,¹¹⁴ while Washington D.C. is home to the association of PMCs, the International Peace Operations Association.

As the lists are arranged according to the countries in which companies are based or from which employees are drawn, they illustrate the existence of business clusters¹¹⁵ in the industry. Clusters, often for economic and political reasons, include complementary product/service suppliers (a case that will be discussed in the third and fourth sections) and include other institutions, such as governmental bodies, international organizations, and trade associations. They have many benefits; Porter suggests that "cluster advantages rest on information, transaction costs, [and] complementaries...",¹¹⁶ and "the proximity of companies and institutions in one location – and the repeated

¹¹¹ The list in Appendix-B is adapted from the International Consortium of Investigative Journalists, *Making a Killing: The Business of War*, 161-165.

¹¹² Avant argues that South Africa's attempt to regulate these companies caused them to operate less openly, resulting harder to document the number and location of firms that actually sell services to other militaries. See Avant, *The Market for Force: The Consequences of Privatizing Security*, 143-178.

¹¹³ "Private Military Corporations," http://www.sourcewatch.org/index.php?title=Category:Private_military_corporations (accessed 1/02/2007).

¹¹⁴ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 12.

¹¹⁵ Porter explains, "A cluster is a critical mass of companies in a particular field in a particular location, whether it is a country, a state or region, or even a city." See M. E. Porter, "The Adam Smith Address: Location, Clusters, and the 'New' Microeconomics of Competition," *Business Economics* 33, no. 1 (1998), 10.

¹¹⁶ Porter, *The Adam Smith Address: Location, Clusters, and the 'New' Microeconomics of Competition*, 10.

exchanges among them – fosters better coordination and trust.”¹¹⁷ Companies in these clusters have the advantage of agglomeration economies, such as direct observation of others and ability to exploit collective knowledge, and network-based effects, especially enhanced social interaction. They have better access to information than do other firms, resulting from both direct cluster effects as well as network process underlying the clusters.¹¹⁸

Porter argues that clusters provide a new way of thinking about the economy, a means for bringing together firms and institutions and identifying the impediments and constraints.¹¹⁹ That this is a new way of thinking about the economy or the industry (in how PMCs find new administrative systems or develop new services) is clear. PMCs in such clusters are likely to be more innovative than others would be. Because of the proximity and centrality (measurement of the involvement in the network and deep involvement in network relations) they could have more common knowledge, common background and understanding than others, be better positioned to access the information, and have the chance of direct observation of others in order to compete and imitate.¹²⁰

Clusters affect competition by increasing the productivity of companies based in the area, by driving the direction and pace of innovation, and by stimulating the formation of new businesses.¹²¹

¹¹⁷ M. E. Porter, “Clusters and the New Economics of Competition,” *Harvard Business Review* 76, no. 6 (Nov/Dec 1998), 80.

¹¹⁸ G. G. Bell, “Clusters, Networks, and Firm Innovativeness,” *Strategic Management Journal* 26 (2005), 288.

¹¹⁹ Porter, *The Adam Smith Address: Location, Clusters, and the “New” Microeconomics of Competition*, 12.

¹²⁰ Bell, *Clusters, Networks, and Firm Innovativeness*, 288-289.

¹²¹ Porter, *Clusters and the New Economics of Competition*, 80.

a. Cluster Productivity

Being part of a cluster lets PMCs operate more productively in sourcing inputs (especially manpower), accessing information and needed institutions (national, international and business related), and coordinating with related companies, especially when subcontracting large agreements.¹²² Each of these is discussed below:

(1) Better Access to Employees and Suppliers. PMCs maintain close contact with each other and even use the same databases. Their executives also maintain contact with former colleagues still working in the public service; in turn these relations provide a steady flow of business recommendations and information¹²³ and the ability to tap into an existing pool of former military personnel, and by this means lower PMCs' search and transaction costs.

(2) Access to Specialized Information. Clusters accumulate extensive market, technical, and competitive information, and it is easy to facilitate information flow and to foster trust due to personal relationships.¹²⁴ Being the largest buyers from the industry, the US and UK clusters reduce the principal-agent problems in contracts by approximating the parties' interests. Furthermore, the need for technical expertise to stay at the leading edge of military capabilities, and the asymmetric warfare requirements, entail a greater dependence on private sources. Institutions (i.e., government agencies, embassies, political science research centers, or other military related companies) and PMCs in these clusters might share information that is not readily available to others.

(3) Complementaries. "For the most part, PMFs tend to hire former personnel of national militaries [and police forces],"¹²⁵ and these ex-military personnel constitute the basic complement for the industry; that is, any buyer using or purchasing a PMC service generally benefits from the experience of the people who have exited the

¹²² Porter, *Clusters and the New Economics of Competition*, 81.

¹²³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 120,121.

¹²⁴ Porter, *Clusters and the New Economics of Competition*, 81.

¹²⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 76.

military service. Companies can boost industry demand by including with their services complementary products/services, as with cameras and film, razors and blades, and laboratory instruments and consumable supplies.¹²⁶ Similarly, PMCs leverage their services with their ex-military personnel. Companies in these clusters, due to the proximity to national military headquarters, can easily reach former personnel, or ex-military personnel in the company can lure their former colleagues still in public service, who, in many cases, are their former subordinates, to work for a PMC.

(4) Access to Institutions. Things like recruiting personnel trained in national militaries by luring when they are still in service or training programs in trade associations lower the cost of internal training and contribute to collective benefits in clusters. Serving in a publicly dominated market, security issues necessitate that PMCs maintain close relationships with national governments, international institutions, political science research centers, and think tanks.

b. Cluster Innovation

“Because,” Porter articulates, “sophisticated buyers are often part of a cluster, companies inside clusters usually have a better window on the market than isolated competitors do.”¹²⁷ For example, MPRI’s (Military Professional Resources Incorporated) employee pool draws from the highest levels of retired US military personnel. In its office located a short distance from Pentagon, MPRI has a carefully managed database of former military personnel -- as of 2002 over 12,000 -- from among whom the company can replicate every single military skill, and its close ties with its home government, due to its personnel structure, gives MPRI a decided advantage over corporate rivals.¹²⁸ Other innovations in the industry, including some not directly related to clustering, can be found in Chapter VI.

¹²⁶ M. E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1998), 207.

¹²⁷ Porter, *Clusters and the New Economics of Competition*, 83.

¹²⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 119-121.

c. New Business Formation

Many new companies grow up within a cluster. Based on the information given in the SourceWatch Website,¹²⁹ at least four companies were founded or opened offices in London during the 1990s, and four more after 2000. In the Washington D.C. cluster, four PMCs were founded or opened new offices during the last decade. New companies founded in clusters are the result of several factors. First, individuals working in the cluster can easily perceive gaps or niches within markets. Second, as monetary barriers to entry into private military industry are very low around the globe, it is also easy to enter into the industry once a couple of companies have established a good public image and familiarized different shareholders. Finally, clusters present a significant market in which new companies benefit from already established relationships.¹³⁰

3. Market Segmentation

Private military industry is a market in which many similar or closely related services, different forms of security, are sold to buyers. In this industry, although the varieties of service being sold are similar to some extent, the buyers are usually not alike. In theory, every buyer overlapping with a service variety forms an industry segment, “because,” Porter states, “the five forces or the value chain [are] somehow different for each... In practice, however, product [service] varieties and buyers should be grouped into categories that reflect their important differences.”¹³¹

The service varieties include: military operations at the forefront of the battlespace served by military provider firms; military consulting offering strategic, operational, and/or organizational analysis and training supplied by military consulting firms; and supplementary military functions including non-lethal aid and assistance, such as logistics, intelligence, technical support, supply, and transportation provided by military support firms.¹³²

¹²⁹ *Private Military Corporations*.

¹³⁰ Porter, *Clusters and the New Economics of Competition*, 84.

¹³¹ Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 237.

¹³² Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 92-97.

Buyers, on the other hand, can be individuals (such as a businessman held hostage in East Timor for \$200,000 in ransom and then rescued by Onix International, a firm made up of ex-New Zealand SAS soldiers¹³³, or Afghanistan President Hamid Karzai's protection provided by Virginia-based contractor DynCorp International).¹³⁴ Alternatively, it can be private firms (such as British Petroleum (BP), which hired DSL (Defense Systems Limited, a.k.a. ArmorGroup) in 1997 to ensure the protection of its pipelines in Columbia).¹³⁵

Another buyer category is non-state entities. Singer quotes from Anna Leander, "Worldvision in Sierra Leone and UNHCR (United Nations High Commission for Refugees) on the Afghanistan border, have hired PMFs for protection and security advisory."¹³⁶ States also employ PMCs in various ways. First, they can hire a PMC as an interim solution to immediate dangers, for example, EO (Executive Outcomes) was generally credited with stopping at least two coup attempts against the Sierra Leone government.¹³⁷ Second, to lessen the effects of downsizing a PMC can be employed (e.g., MPRI's work for the US Army in the process of privatizing the Reserve Officer Training Corps [ROTC]). Third, to westernize their militaries (e.g., MPRI's training of the Croatia and Bosnia Federation's military),¹³⁸ and to meet the need for specialized expertise in advanced technology weapon systems, or for mundane non-core military activities, states can use PMCs. Public agencies other than military forces employ PMCs, too. One example, perhaps the most tragic one, is the Aviation Development Corporation (ADC), hired by the CIA for its surveillance plane. In one mishap, ADC employees conducting counter narcotics operations in Peru mistakenly shot down a private passenger plane carrying a family of missionaries rather than drug runners.¹³⁹

¹³³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 80.

¹³⁴ D. Isenberg, "Security for Sale in Afghanistan," *Asian Times Online* 2003, http://www.atimes.com/atimes/Central_Asia/EA04Ag01.html (accessed 12/31/2006).

¹³⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 221.

¹³⁶ Leander, A. "Global Ungovernance: Mercenaries, States and the Control over Violence" *Copenhagen Pence Research Institute Working Paper*, 2002, quoted in *ibid.*, 82.

¹³⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 201.

¹³⁸ *Ibid.*, 123-130.

¹³⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 213.

Although PMCs are legitimate, long-term corporate entities, some firms could engage with rebel groups and drug cartels. Spearhead Limited, an Israeli company, “is reputed to have provided military assistance to the forces of Colombian drug lords Pablo Escobar and Jose Gonzalo Rodriguez Gacha, two of the Medellin cartel’s most violent bosses.”¹⁴⁰

Figure 1 gives the array of abovementioned services and buyers.¹⁴¹ This figure is a blend of Singer’s industry classification and Avant’s contract-based¹⁴² service description to illustrate how the industry can have a wide spectrum of buyers and services.

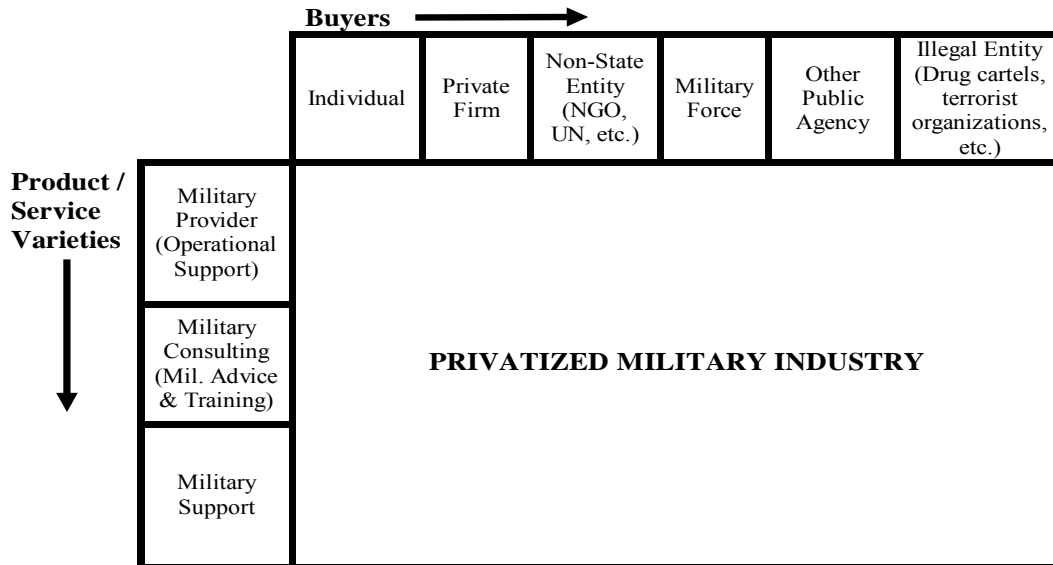


Figure 1. Private Military Industry as an Array of Services and Buyers (After: Porter, M. E., *Competitive Advantage*; Service Varieties from Singer, P.W., *Corporate Warriors: The Rise of the Privatized Military Industry* and Avant, D.D., *The Market for Force: The Consequences of Privatizing Security*)

¹⁴⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 220.

¹⁴¹ This figure is adapted from Porter’s *Competitive Advantage: Creating and Sustaining Superior Performance*, 233.

¹⁴² Avant, *The Market for Force: The Consequences of Privatizing Security*, 17.

Even though this broad segmentation shows many industry segments, a couple of different but industry-inherent features add to the complexity of segmentation. For example, the use of a native PMC in a different country from the buyer's or a foreign company used in a third country entails adding two new distinctive dimensions to the figure. The first dimension is the market from which a PMC is hired, and the second is the area of use in which a hired company is employed, or its direct participation in military operations in the context of international or internal armed conflicts. Figure 2 furthers the basic segmentation by including these two dimensions.¹⁴³

To simplify, only three broad segments -- military provider, military consulting, and military support segments -- will be used to analyze the economics of the industry without considering where a PMC is hired and in which area it is used. While bearing in mind the use of PMCs in legal and ethical use for state governments, these segments will be included in consideration.

¹⁴³ In Figure 2, (X) refers to any actual segment or a segment that might have been filled in but none of the references hold information on that. On the other hand, (N) refers to '*null*' segments that are not filled by any firm, but are conceptually possible, although some are illegal. The author of this project believes that blank segments are feasible segments for firms and buyers, yet it is highly unlikely any firm would serve in those. In addition, some columns are deleted, because it is pointless to serve in such segments, such as an illegal entity, hiring a national, legitimate PMC to use in its own country.

BUYER		National														Int'l	Ind. Buyer – Int'l Firm- Ind. Use	
FIRM HIRED / USED		National						International										
AREA OF USE		In Country			Int'l			In Country				International						
BUYER TYPE		Individual	Private / Non-State	Public / State	Individual	Private / Non-State	Public / State	Individual	Private / Non-State	Public / State	Illegal	Individual	Private / Non-State	Public / State	Private / Non-State	Illegal		
SERVICE VARIETIES	Military Provider (Operational Support)						N			X	X		N	N	N	N	X	
	Military Consulting (Mil. Advice & Training)		N	X		N	X		N	X			N	N	X			
	Military Support	(Logistics Support)		X	X		X	X		X	X			X	N	X		
		(Site / Personal Security)	X	X	X	X	X	X	X	X	X		N	X	N	X		N
	(Crime Prevention / Intel)	N	X	X	X	X	X	N	N	X			X	N	X			

Figure 2. Private Military Industry Segmentation

C. ANALYSIS OF MILITARY PROVIDER SEGMENT

The military provider segment is unique compared to other segments. Even though there are copious news stories, articles, and books written about the ‘mercenary’ companies of this segment, most of the information relates to how they *do* their business, not how they manage it. There are three reasons that the information about the military provider segment is very limited. First, the nature of the business in most cases requires buyers and PMCs to operate covertly. Second, the two most famous companies, EO (Executive Outcomes) and Sandline are now defunct.¹⁴⁴ Third, none of the existing companies admit to having served in the segment. Therefore, the analysis will be based on historical information of these two companies: EO (Executive Outcomes), a South

¹⁴⁴ Avant, *The Market for Force: The Consequences of Privatizing Security*, 17.

African firm disbanded in 1999, and Sandline International, which was registered in the Bahamas, but had offices in London and Washington, D.C. Figures 3 and 4 summarize the scope of their operations when they were active in the 1990s.¹⁴⁵

Year	Nation-State	International Contracts
1990	South Africa	Specialized training for Special Forces and Para-military.
1991	Botswana	Covert reconnaissance for De Beers (Diamond Company)
1991	Namibia	Covert reconnaissance for De Beers (Diamond Company)
1992	Angola	Recovery of oil equipment in Soyo held by UNITA rebels
1993	Angola	1. Protection of diamond mine in Canfunfo, Lunda Norte 2. Conduct of military training of the 16 th Brigade of Forças Armadas Angolanas (FAA) 3. Conduct of general military training (terminated January 1997) 4. Conduct of combative operations against UNITA
1994	Angola	1. Conduct of air and logistical support for FAA
1995	Sierra Leone	1. Military assistance to President Valentine Strasser against RUF insurgency (training and combative operations) 2. Protection of Kono diamond mines
1995	Kenya	Joint Venture: Security Consulting Company
1995-97	Malawi Mozambique Uganda Zambia	Military training projects (undisclosed)
1996	Sierra Leone	1. Expansion of 1995 contract 2. Destruction of RUF insurgency facilitating peace negotiations and elections. 3. Protection/security of mining facilities
1997	Zaire	Aborted contract to support failing Mobutu regime

Figure 3. Executive Outcomes Contract Operations 1989-1999 (From: Goddard, S.C., *The Private Military Company: A Legitimate International Entity within Modern Conflict* adapted from Abdel-Fatau Musah, *Mercenaries: An African Security Dilemma*)

Year	Nation-state	Activity
1996	Papua New Guinea	Aborted contract to equip, train, and support an Army Special Forces Unit in neutralizing the rebel leadership of the Bougainville Revolutionary Army (BRA)
1997	Sierra Leone	Aborted contract to equip, train, and support the indigenous Kamajors peoples against the rebel Revolutionary United Front (RUF) insurgents

Figure 4. Sandline International Foreign Military Contracts (From: Goddard, S.C., *The Private Military Company: A Legitimate International Entity within Modern Conflict*)

¹⁴⁵ S. C. Goddard, "The Private Military Company: A Legitimate International Entity within Modern Conflict" (Master of Military Art and Science, US Army Command and General Staff College), 40,60, <http://www.globalsecurity.org/military/library/report/2001/pmc-legitimate-entity.pdf> (accessed 11/24/2006).

The need to understand an industry's situation is to relate a company to its environment. The relevant environment can be very broad, including all facets of social and economic dynamics, yet the key characteristic is the industry in which it competes. Forces outside the industry, bargaining power of buyers and suppliers, rivalry among existing companies, substitutes, and potential entrants, are significant because of the ability to affect all firms in the industry.¹⁴⁶

Although Avant argues that many companies offer armed operational support for their clients,¹⁴⁷ her contract-based assessment does not support the industry segmentation mentioned previously. Thus, it would be better to include them as sub-segments to the military support segment.

Figure 5 gives the military provider segment in terms of a Five Forces analysis, as outlined by Porter.¹⁴⁸ This analysis is so important that a decent strategic analysis would fail if it did not consider customers, suppliers, rivals, new entrants, and substitutes. Although '*complement*' is not a part of the framework, its importance requires including it in the analysis. Complementary products are those used jointly with their product by the buyer and they represent interrelatedness among industries.¹⁴⁹ As noted previously, this analysis is performed in the context of the 1990s, when both Executive Outcomes and Sandline were the dominant firms. Dark arrows in this diagram (also in the following sections) summarize the relative influence of each of the five forces, with an upward arrow being higher and a downward arrow being lower.

¹⁴⁶ M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, 1st Free Press ed. (New York: Free Press, 1998), 3.

¹⁴⁷ Avant, *The Market for Force: The Consequences of Privatizing Security*, 9-19.

¹⁴⁸ Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, 4.

¹⁴⁹ Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 416.

MILITARY PROVIDER SEGMENT

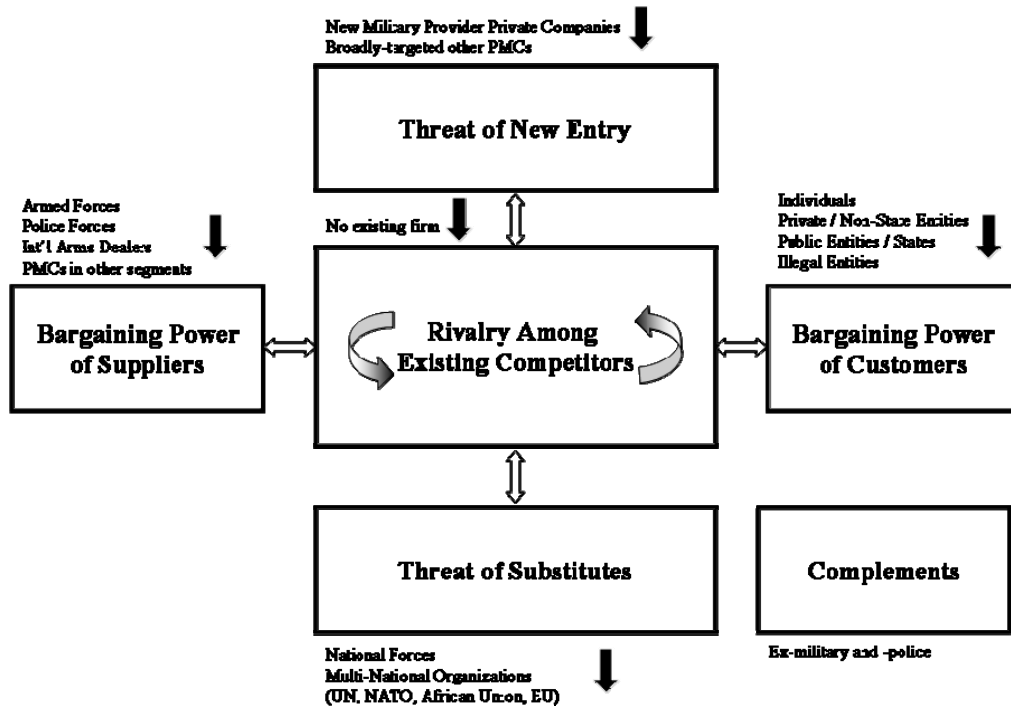


Figure 5. Five Forces Analysis of the Military Provider Segment (After: Porter, M.E., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*)

1. Rivalry among Existing Competitors

In any industry or industry segment, rivalry is the result of competitors' pressure or the opportunity to improve one's position. It is hard to tell these two firms were in competition with one another. Sandline once delivered some troops to Papua New Guinea who were later discovered to be employees of Executives Outcome, which was subcontracted due to the lack of immediate manpower. Furthermore, Executive Outcomes was claimed to be under the umbrella of Branch-Heritage Group, a financial holding registered in London and parent company of Sandline, or to have executives associated with that group.¹⁵⁰ However, "Proof of formal corporate links between Branch-Heritage

¹⁵⁰ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 105-107.

and EO, if it exists, is buried in offshore company registration offices.”¹⁵¹ Nevertheless, some other factors are still relevant and this close involvement diminishes the rivalry between the two companies.

Because the segment had had two equally balanced companies, there was little relative strength to dominate the market. Both companies had less regard for their corporate image and easily involved themselves with some of the most unseemly regimes of the 1990s.¹⁵² Many buyers with limited ability to choose from existing companies required their services. The segment’s growth rate was high, which in turn reduced the rivalry. Similar to other companies in the whole industry, EO and Sandline had neither high fixed costs nor a high exit barrier. For example, “The only constantly employed unit was at the Pretoria [South Africa] headquarters that served as a command center and kept a 24-hour radio watch. EO maintained no standing force in the barracks, but rather kept a database of immediately available personnel.”¹⁵³ Their basic investment in human resources was the upkeep of relevant skills in their databases in order to use specific skills in their operations.

The overall rivalry among existing competitors was very low, a situation that may continue even if any company admits to operate overtly in the segment or if their operations come to be considered legal.

2. Threat of New Entry

Porter describes the threat of new entry to the segment under several factors: barriers to entry, expected retaliation, entry deterring price and experience and scale as an entry barrier.¹⁵⁴ Most of the factors are not applicable to the military provider segment. However, both firms’ differentiation in their services, such as brand identification and customer loyalty, possibly deterred any new entrant or other PMCs of general similarity. It is a fact that that some customers, like Angola and Sierra Leone, hired Executive Outcomes more than once. Also, Executive Outcomes was the most notorious, but also

¹⁵¹ Shearer, *Private Armies and Military Intervention*, 43.

¹⁵² Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 86.

¹⁵³ Ibid., 103.

¹⁵⁴ Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, 7-17.

the most effective, member of the segment in which it organized and completed its contracts.¹⁵⁵ The veterans of militaries were the base of the companies' pool of personnel. That these personnel put their skills and experiences, which they earned in military service, into the fulfillment of the contracts constituted an entry barrier.

However, different from Porter's suggestions, the main impediment for a prospective company willing to enter into the segment is the lack of legal regulation. Thus, without any regulation, the threat of a new entry in the provider segment was low as such in the 1990s, and may remain the same today.

3. Bargaining Power of Customers

Buyers are supposed to compete with any industry by forcing down prices, bargaining for better service, and playing competitors against each other.¹⁵⁶ However, this is not the case in the military provider segment. Singer depicts this circumstance as follows:

Violence breaks out in a small African state. The local government collapses and reports emerge that civilians are being massacred by the tens of thousands. Refugees stream out in pitiable columns. As scenes reminiscent of the Rwanda genocide are played out on the world's television screens once again, pressure mounts to do something. The U.N.'s calls for action fall on deaf ears. In the U.S. the leadership remains busy with the war on terrorism and Iraq and decides that the political risks of doing nothing are far lower than the risks of losing any American soldiers' lives in what is essentially a mission of charity. Other nations follow its lead, and none are willing to risk their own troops. As the international community dithers, innocent men, women, and children die by the hour. It is at this point that a private company steps forward with a novel offer. Using its own hired troops, the firm will establish protected safe havens where civilians can take refugee and receive assistance from international agencies. Thousands of lives might be saved. All the company asks is a check of \$150 million.¹⁵⁷

¹⁵⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 101.

¹⁵⁶ Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, 24.

¹⁵⁷ Singer, *Peacekeepers, Inc.*, 59.

Whereupon, he continues, the client will accept the offer (having few other options) and simply write the check (typically without any or at least any fruitful negotiation).¹⁵⁸ A similar desperate case happened in Papua New Guinea in 1997, when the country could not find any outside aid from its allies; its government hired Sandline International to reestablish control over Bougainville, an island holding the country's primary export, copper.¹⁵⁹

None of the circumstances, which Porter described in his book, fully hold true for buyers for better positioning as a powerful group in this segment.¹⁶⁰ Buyers in this segment could not establish a concentrated, large-volume purchase, pose a credible backward integration (the reason they buy service from a PMC is that they lack the capability to use their own forces), or have enough information about the market (even the possible cost of an international relief force intervention). Almost certainly, the service they needed would not be a small portion of their purchase, to establish bargaining leverage. Furthermore, according to Singer, "Businesses [PMCs] often make their estimates of how much to charge public agents not by their estimate of intrinsic costs, but by how much they believe they can get away with."¹⁶¹ Altogether, the bargaining power of buyers in this segment has been almost nonexistent, and seems poised to stay the same in the future if PMCs start to operate and/or allies of buyers' or the U.N. are unwilling to intervene.

4. Bargaining Power of Suppliers

It is remarkable that the non-material supplier of the industry is the public military or police force of any one country. The material suppliers of the segment are the international arms dealers and PMCs of other segments. In the downsizing era of the 1990s, private military industry (and its segments) easily picked and chose many of the best and brightest away from state militaries.¹⁶² On the other hand, after 1989, much of

¹⁵⁸ Singer, *Peacekeepers, Inc.*, 62.

¹⁵⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 191-193.

¹⁶⁰ Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, 24-27.

¹⁶¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 155.

¹⁶² *Ibid.*, 77.

the old Soviet weaponry was declared surplus and ended up in the hands of arms brokers and gunrunners. Most of the weapons used in operations came from the international arms dealers who bought directly from Russia or its satellite states that had disappeared or downsized or reconfigured their militaries to meet Western standards¹⁶³; the dealers then transferred those weapons to private military companies. “Any tools of the trade (typically weapons systems and other military equipment) are not held in stock but rather are bought or leased rapidly from the international market, also on a case-by-case basis. Such global resource allocation builds greater competence in contracting with less operational slack.”¹⁶⁴ For example, first Executives Outcomes and then Sandline hired helicopter gunships for the Sierra Leone government from the market.¹⁶⁵ It was also claimed that Ibis Air, a firm owned by Branch-Heritage Group owner of Sandline, had the capability to lease and operate any type of combat aircraft available on the world market.¹⁶⁶

In the case of public security forces, due to downsizing none of the states had any bargaining power over the companies for their ex-military personnel. Similarly, the existence of so many international arms dealers created a less concentrated market to exert a bargaining power over companies. However, PMCs were not the only customers for arms dealers, who could also sell their goods to terrorist groups, drug cartels, and even to Third World countries. Therefore, the bargaining power of international arms dealers was moderate. On the other hand, PMCs found innovative solutions to lower the bargaining power of arms dealer. “Many contracts are designed so that the client is responsible for providing the weapons or other logistical needs of the firm; the PMF just supplies the personnel. If this is not the case, a number of firms have been able to make

¹⁶³ I Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 54.

¹⁶⁴ Ibid., 75.

¹⁶⁵ Ibid., 185.

¹⁶⁶ Ibid., 105.

gains by handling the purchasing on behalf of the client, for an added charge.”¹⁶⁷ When all factors are considered, the overall bargaining power of suppliers in the segment is probably low.

5. Threat of Substitutes

The first and foremost substitute for a military provider segment should be the countries’ own national security forces. Yet, many clients do not have such a force or the force is deficient, necessitating their employment of PMCs. Thus, a national force is often an ineffective substitute. Many treaties and multi-national organizations among countries were the substitutes for the segment in the 1990s. The most important one was the UN, which many times used ad hoc military forces in conflict regions. Others were ad hoc peacekeeping coalitions established by a wide variety of countries or mostly regional standing unions -- for example, the African Union (AU), a treaty organization that helped to police the many problem areas of Africa with African national militaries, or the European Union, which also had a quasi-military (police) force that deployed to the Balkans. The ability for one of the alliances to enter a region militarily with international consent could be seen as a threat to substitution by a military provider PMC.

However, the tremendous effort required to intervene in a conflict region often requires a substantial change in nations’ governmental will or policy to decide on such an operation. Thus, the capability of many alliances’ nations to get to a crisis in good time and in good order is seriously lacking. Consequently, “Many PMCs were proud of themselves on the speed of their responses that became one of the key benchmarks in the industry.”¹⁶⁸

As Singer argues,

[s]ometimes, coalitions can be built to respond to crises, but they require time, cohesion, and a willingness and capability to intervene that may not always be there. Thus, when state failure or chaos occurs, often no one

¹⁶⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 74.

¹⁶⁸ R. D. Wallwork, *Operational Implications of Private Military Companies in the Global War on Terror* (Fort Leavenworth, Kansas: United States Army Command and General Staff College School of Advanced Military Studies, 2005), 35, <http://handle.dtic.mil/100.2/ADA436294>. (accessed 10/16/2006)

answers the call. Even when peacekeeping forces are available, the units are often slow and cumbersome to deploy, poorly trained, under-equipped, lacking in motivation, or operating under a flawed mandate.¹⁶⁹

This was more obvious in UN operations as Richard Wallwork quoted from Robert Kaplan that “the world’s most efficient peace keeping force belongs not to the UN or even to the great powers but to ... Executive Outcomes.”¹⁷⁰

Furthermore, the price performance of the potential substitutes was not attractive, even though the client in a peacekeeping operation did not pay the costs. “The Financial Times suggests that Executive Outcomes (EO) had running costs at 4 percent those of the United Nations (UN) and their contract with the government of Valentine Strasser in Sierra Leone cost between \$35 million and \$60 million. The UN had operating costs of \$607 million a year.”¹⁷¹

It is clear that the UN, other alliances and ad hoc coalitions did not pose a threat to military provider PMCs, at least at the beginning when the urgency was high. Thus, the threat of substitutes in this segment was very low.

6. Complements

The typical employees of the segment, retired military members who were relatively cheap labor and readily available were the complement of the military provider PMCs. For example, by using ex-military personnel Executives Outcomes “ensured common training, a pre-existing hierarchy, and extensive combat experience in low intensity conflict and counter-insurgency operations. The company proudly advertised that it had over 5000 years of combat experience, far more than most armies can claim.” As Porter suggests, one complementary product (ex-military) affected the military provider PMCs’ market image and service quality, as well as the cost of using high combat experience from the buyer’s viewpoint.¹⁷²

¹⁶⁹ Singer, *Peacekeepers, Inc.*, 60.

¹⁷⁰ Kaplan, R. *The Coming Anarchy* (New York: Random House, 2000), 81 quoted in Wallwork, *Operational Implications of Private Military Companies in the Global War on Terror*, 37.

¹⁷¹ McGhie, S. “Briefing: Private Military Contractors” *Jane’s Defence Weekly* 37, no. 21 (22 May 2002): 24 quoted in *Ibid.*, 36.

¹⁷² Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 418.

Singer states,

That almost everyone in the industry is an “ex-something” has a twofold advantage. The costs of training and evaluation have been accrued elsewhere at the state's expense rather than that of the firm, which now benefits from them. This means that the cost of investment in employees' skills, including the most specialized of military proficiencies that took years and tens of thousands of dollars of public spending to develop, is almost negligible for the PMF. This is a huge comparative advantage in relation to public agents. As far as ongoing human investment, the firm must typically only invest in the upkeep of relevant skills and how best to harness them inside the organization.¹⁷³

Another form of complementaries is the coordination of activities across companies to optimize their collective productivity.¹⁷⁴ The employee pools of companies were non-exclusive databases; for example, Sandline used or shared the employees of Executives Outcomes in its operation.¹⁷⁵ Thus, while Sandline could redeem its contract, by hiring its employees, Executives Outcome would benefit from the success of the operation as a marketing tool.

D. ANALYSIS OF MILITARY CONSULTING SEGMENT

This segment is unique in the way PMCs have been used. These companies are seen as an effective yet secure way of providing appropriate training and advice where national military forces are lacking.¹⁷⁶ In addition, their involvement helps the home government to facilitate *foreign policy by proxy*, allowing the government to change events on the ground and to maintain its long-term interests, but at a distance that allows for plausible deniability.¹⁷⁷ “Outsourcing of foreign military policy to military advisory and training companies appears to mark a trend led by the United States which gained momentum after the end of the Cold War. For the time being this market segment is not fully open to international competition. MPRI, Vinnell, and DynCorp are among the

¹⁷³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 77.

¹⁷⁴ Porter, *Clusters and the New Economics of Competition*, 81.

¹⁷⁵ Ibid., 194.

¹⁷⁶ Shearer, *Private Armies and Military Intervention*, 35.

¹⁷⁷ D. D. Avant, *Mercenaries* (Washington: Carnegie Endowment for International Peace, 2004), 24.

leading American contenders.”¹⁷⁸ David Shearer explains their primary focus as exploiting domestic defense-market opportunities, while conducting international contracts that stemmed from their existing business relationships.¹⁷⁹

Although one of the main functions of these companies is strategic consulting and advice, the biggest growth area has been in providing military training. During the 1990s, U.S. private firms trained militaries in more than 42 countries.¹⁸⁰ For instance:

- Hungary hired Cubic to help it restructure its military to comply with NATO standards,
- Croatia and Bosnia each hired Military Professional Resources Incorporated (MPRI) to help professionalize, train, and equip their armed forces in 1995,
- The U.S. has hired MPRI, DynCorp, and other PMCs for military training and other drug war missions in Colombia,
- The State Department and Pentagon have outsourced portions of military training in Africa to SAIC, MPRI, DFI International, Logicon, and other U.S. companies.

MPRI is the prime example in that it served many segments described in Figure 2. For example, it was hired by its own government agencies to be used in its own country, by foreign governments to train personnel on the buyers’ soil, and by its own government to be used in another country. This practice complicates the analyses, whether economic or regulatory.

Singer estimates that there are about 250 firms (presumably some are not PMCs, but corporate training/consulting companies) in the US military training market, led by Lockheed Martin with a market share at 18 per cent, L3/MPRI at 10 per cent, and CAE Electronics at 8 per cent.¹⁸¹

¹⁷⁸ P. Lock, “Military Downsizing and Growth in the Security Industry,” <http://www.peter-lock.de/frame.php?datei=/txt/southanew.html> (accessed 12/19/2006).

¹⁷⁹ Shearer, *Private Armies and Military Intervention*, 34.

¹⁸⁰ D. D. Avant, “Privatizing Military Training,” *Foreign Policy in Focus* 7, no. 6 (2002), <http://www.fpif.org/pdf/vol7/06ifmiltrain.pdf> (accessed 12/03/2006).

¹⁸¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 79.

Figure 6 depicts the Five Forces analysis of the military consulting segment. As in the previous analysis, the dark arrows in the diagram summarize the relative influence of each of the five forces, with an upward arrow being higher, a downward arrow being lower, and a dark line being a moderate position.

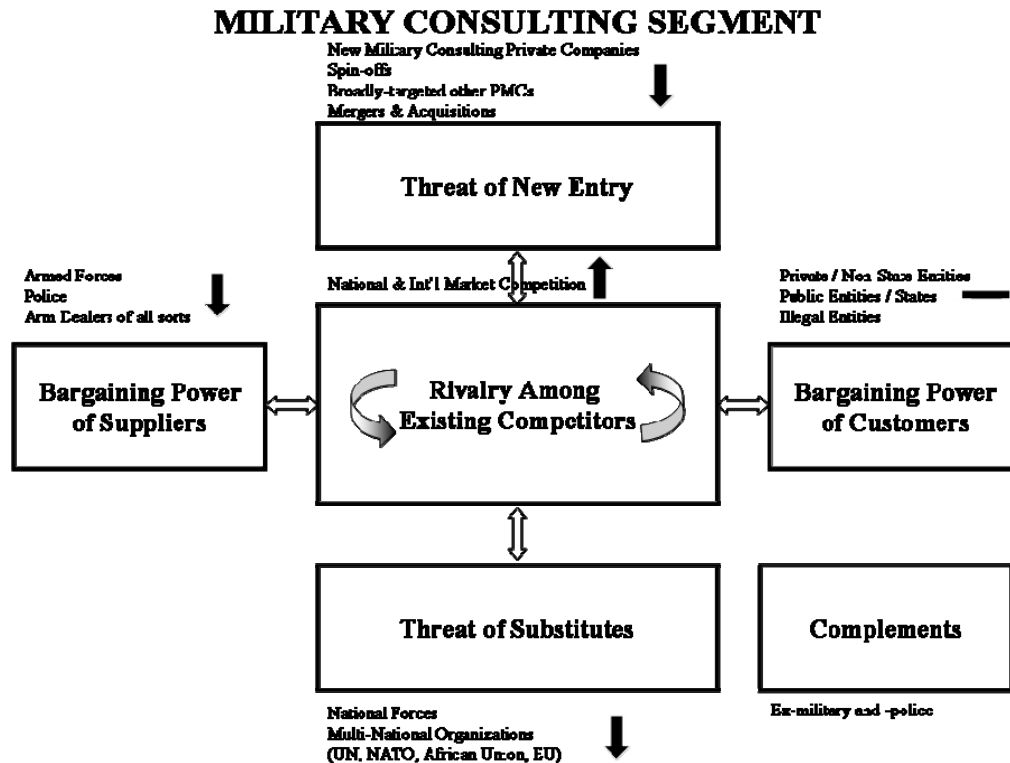


Figure 6. Five Forces Analysis of the Military Consulting Segment (After: Porter, M.E., Competitive Strategy: Techniques for Analyzing Industries and Competitors)

1. Rivalry among Existing Competitors

Even though there are many companies serving in this segment, the market is far from saturated. For instance, between 1997 and 2000, the three market leaders, although they grew their businesses, lost 8 per cent of their market share.¹⁸²

¹⁸² Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 79.

One of the specific example of rivalry happened in 2002 when the US Army ROTC (Reserve Officers Training Corps) program was re-competed, and the incumbent company MPRI lost the contract to COMTek (Communication Technology) on cost concerns.¹⁸³ Although this and the existence of numerous companies suggest that the rivalry is high in national market, in fact the global market is where they compete. The likelihood is that as developing countries' economies expand or their security needs grow, and their desire to westernize their militaries increases, the rivalry in the segment will be higher. Therefore, the overall rivalry among existing companies can be concluded to be high.

2. Threat of New Entry

As many firms respond to the marketplace's demand, a rapid consolidation of the segment into diversified firms, mostly transnational, is taking place. They are either partnering with equals or acquiring smaller participants with niche market and technologic specializations to compete on the global scene. Broader firms, having social capital and established brands, could increase their market share to the detriment of smaller specialized or local firms.¹⁸⁴

The merger of the British firm Defense Service Limited with Armor Holdings exemplifies the trend towards consolidation and diversification. Utilizing primarily ex-SAS personnel, DSL originally offered security training and consultation to governments and MNCs [Multi-National Companies] operating in conflict zones. ... In turn, Armor Holdings, an American-based firm that started out in the body armor business, acquired DSL in 1996. Intent on building up its "risk management services," with a growth through acquisitions-strategy, it created the new Armorgroup division, with DSL at its core.¹⁸⁵

These types of merger and acquisitions suggest that the industry and its segments become no different from any other industry type.¹⁸⁶

¹⁸³ Avant, *The Market for Force: The Consequences of Privatizing Security*, 117-119.

¹⁸⁴ Singer, *Corporate Warriors: The Privatized Military Industry*, 209.

¹⁸⁵ Ibid., 210.

¹⁸⁶ Ibid., 213.

On the other hand, the success and the profitability of MPRI seems to have been recognized by other firms. L-3, a spin-off from Loral and Lockheed, acquired MPRI and is now a part of a consortium that trades on the stock market. This ‘added stamp of legitimacy’ provides MPRI additional areas of profitability.¹⁸⁷ Greater legality and profit margins lure many startups and PMCs from other segments into the consulting segment. For example, Sandline transformed itself into a consulting company.¹⁸⁸ However, with the extent of the segment being so large that a local small firm could find a niche, the new entrants do not diminish existing firms’ status considerably. Thus, the threat of new entry is low in the military consulting segment.

3. Bargaining Power of Customers

In some cases, the customers hire consulting PMCs when they have a great urgency, as in Croatia and Bosnia. This diminishes their bargaining power. On the other hand, whether the customer is a national or an international entity, because of the possibility of further contracts down the road, many firms are motivated to make recommendations that steer follow-on business their own way. Furthermore, the client can become increasingly constrained in its own decision making process, simply by relinquishing own tasks, and can turn out to be more reliant on the firm’s expertise. As the client’s dependence on the firm grows, it will be less able to bargain.¹⁸⁹ The latter point is similar to the bargaining power of customers who use military support segment.

When a third party, other than the ones who either provide or receive the service (such as hiring of MPRI by the US for drug war missions in Columbia) uses a PMC, the buyer can have bargaining power. In this case, it can be said that the bargaining power of the customer is high; however, these cases occur when the third party has no other possible ways to deal with the situation with its own capabilities. Then, it uses PMCs as a tool of foreign policy by proxy, which diminishes its bargaining power with the company to a moderate degree.

¹⁸⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 133-134.

¹⁸⁸ Singer, *Corporate Warriors: The Privatized Military Industry*, 234.

¹⁸⁹ *Ibid.*, 233-234.

4. Bargaining Power of Suppliers

When the supplier is also a customer of the military consulting PMC, such as the US and its Army ROTC program, it can exert some bargaining power to a certain degree; otherwise, it will be very low.

After the Cold-War era, emerging industry created a demand for well-trained personnel and the downsizing of militaries met this demand. However, in the last decade, governments have understood the potential risks of losing well-trained personnel to higher-paying PMCs, and have attempted to prevent the damage caused by the drain.¹⁹⁰ (This issue will be discussed broadly in the next section). If the state governments prevent their retired personnel from working for a PMC or formulate new pay, benefits, and educational incentives to retain their personnel, the bargaining power of the supplier can be moderate or high. As a supplier, by squeezing the employee pool of the PMCs, the state government can exercise bargaining power, but it seems highly unlikely that the state governments can achieve this.

On the other hand, the suppliers pose a credible threat of forward integration that most of the customers already have. But, because either the customers are lacking the capability, as in weak or developing states, or the customers desire to shift activities from in-house (or from the public) to the private sector for a couple of reasons, their bargaining power seems low.

The PMCs in training use military-specific hardware of all sorts. Sometimes the customer supplies most of this; other times the requirement is that the PMC to acquire it on the open market. Together with this, the overall bargaining power of all suppliers is low at the moment.

¹⁹⁰ For further discussion on the issue, see D. Isenberg, British American Security Information Council, (2004), <http://www.basicint.org/pubs/Research/2004PMC.htm>. (accessed 12/23/2006).

5. Threat of Substitutes

Substitutes in this segment are similar to those in the military provider segment.¹⁹¹ For the same reasons, the threat of substitutes is low. However, this segment has a different customer profile than the military provider segment, although the two segments are almost the same. For a MNC, the reasons for hiring a PMC to train its security personnel or gain security consultancy while conducting business in conflict regions are different from the reasons of a national government, which might lack the inherent capability. Thus, different customers, like MNCs, can demand special requirements that a regular PMC does not have, and in turn, customers can investigate alternatives. This issue however would not endanger the power of existing companies against substitutes.

6. Complements

The talent pool of this segment, as in the previous one, is ex-military personnel, who offer the same or similar distinct advantages for the PMC. For example, the PMC can ascertain and benefit from the brand recognition provided by its employees. Singer states “MPRI [is] selling itself based on the past battlefield achievements of its employees while in the US armed forces.”¹⁹² The other example of how the complement affects the way of doing business is that the hierarchical structure of rank within the military has moved to the military consulting segment.¹⁹³ This is highly important where the company in most cases tries to promote and establish a well-trained work force.

These personnel help maintain close relationship with old colleagues still in service and this, in turn, provides the company with a flow of business recommendations and information.¹⁹⁴ On the other hand, for instance, after being acquired by L-3 and

¹⁹¹ Except individual buyer, customers are the same with military provider segment. An individual buyer who demands military training or consultancy is highly unlikely. For this reason, it is removed from being a customer of this segment.

¹⁹² Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 74.

¹⁹³ Singer, *Corporate Warriors: The Privatized Military Industry*, 288.

¹⁹⁴ *Ibid.*, 289.

introduced to a larger array of clients, particularly in the corporate sector, MPRI requires less specialized military expertise, which diminishes the effects of the complement.¹⁹⁵

E. ANALYSIS OF MILITARY SUPPORT SEGMENT

The military support segment is the most puzzling segment in the industry. Companies in this segment provide highly specialized services, are the largest in scope and revenue, and often appear less mercenary than the other segments.¹⁹⁶ Although their employees may or may not have military experience or training, they have skills and abilities with military as well as civilian use.¹⁹⁷

The most common services include logistical support, transportation, engineering, construction, skilled and unskilled laborers, maintenance, technical expertise, and other paramilitary operations. They operate in a highly competitive global marketplace and adapt their products to meet market demands. PMCs choose their employers and the duties they will perform in accordance with company policy. They also utilize current business management philosophies, such as aggressive advertising and sales, outsourcing (subcontracting) of non-core functions where cost efficient, and controlled production and delivery systems to optimize profit. Although PMCs share many similar attributes, they can also differ significantly in organizational structure, source of working capital, number of employees, and other characteristics. Contractors perform a range of services from highly specialized tasks requiring extensive training and experience – computer networking abilities and communications systems, for example – to unskilled general labor in dining halls, laundry facilities, and construction projects. PMCs vary in size and structure from large multinational corporations with a complex hierarchical corporate structure to simple partnerships and individual proprietors.¹⁹⁸

They perform some other functions, such as personal protection, signal intercept, computer cracking, secure communications, or technical surveillance.¹⁹⁹ As Avant notes,

¹⁹⁵ I Singer, *Corporate Warriors: The Privatized Military Industry*, 316-317.

¹⁹⁶ Ibid., 234-236.

¹⁹⁷ T. K. Adams, "The New Mercenaries and the Privatization of Conflict," *Parameters* 29, no. 2 (Summer 1999), 107.

¹⁹⁸ D. C. Kidwell, *Public War, Private Fight? The United States and Private Military Companies* (Fort Leavenworth, KS: Army Combined Arms Center, Combat Studies Institute, (2005), <http://cgsc.leavenworth.army.mil/carl/download/csipubs/kidwell.pdf>. (accessed 12/29/2006)

¹⁹⁹ Adams, *The New Mercenaries and the Privatization of Conflict*, 107.

They include decades old private security companies such as Pinkertons and Wackenhut as well as new firms in South Africa, the UK, the US, and all over Europe. For instance, the US hires DSL to guard some of its embassies abroad. DSL frequently provides site security and crime prevention services for the UN and many INGOs as well as to transnational corporations (TNCs) working in the world's hot spots. Gray Security provides site security to oil and diamond companies in Angola and Lifeguard Security offers similar services to diamond mines in Sierra Leone. Virtually all US contributions to international civilian police units in the 1990s were DynCorp employees.²⁰⁰

To Singer, “Like what has occurred with supply-chain management in more general industry, the benefit of this type of military outsourcing is that these firms specialize in secondary tasks not part of the overall core-mission of the client’s organization. Thus, they are able to build capabilities and efficiencies that a client military cannot sustain. The client military, in turn, can concentrate on its primary business of fighting.”²⁰¹

Unlike the PMCs in other segments, companies in the military support segment can have large contracts, especially when supporting the operations of the most advanced militaries. These contracts are often of the cost-reimbursement type with indefinite-delivery/indefinite-quantities,²⁰² such as relatively long-term contracts including lifetime support contracts for highly technical weapons systems²⁰³ or contracts where mission requirements may change frequently and flexibility is required.²⁰⁴

Lastly, an important feature of the segment, including its sub-segments, is that the operation areas and the buyers of the services are more numerous than the previous ones.

Figure 7 illustrates the overall Five Forces analysis of the military support segment. Again, the dark arrows represent a relative assessment of each factor.

²⁰⁰ D. D. Avant, *Private Security Companies*, Vol. 10 (Abingdon, UK: Carfax, 2005), 125.

²⁰¹ Singer, *Corporate Warriors: The Privatized Military Industry*, 234.

²⁰² Ibid., 327.

²⁰³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 155.

²⁰⁴ Singer, *Corporate Warriors: The Privatized Military Industry*, 328.

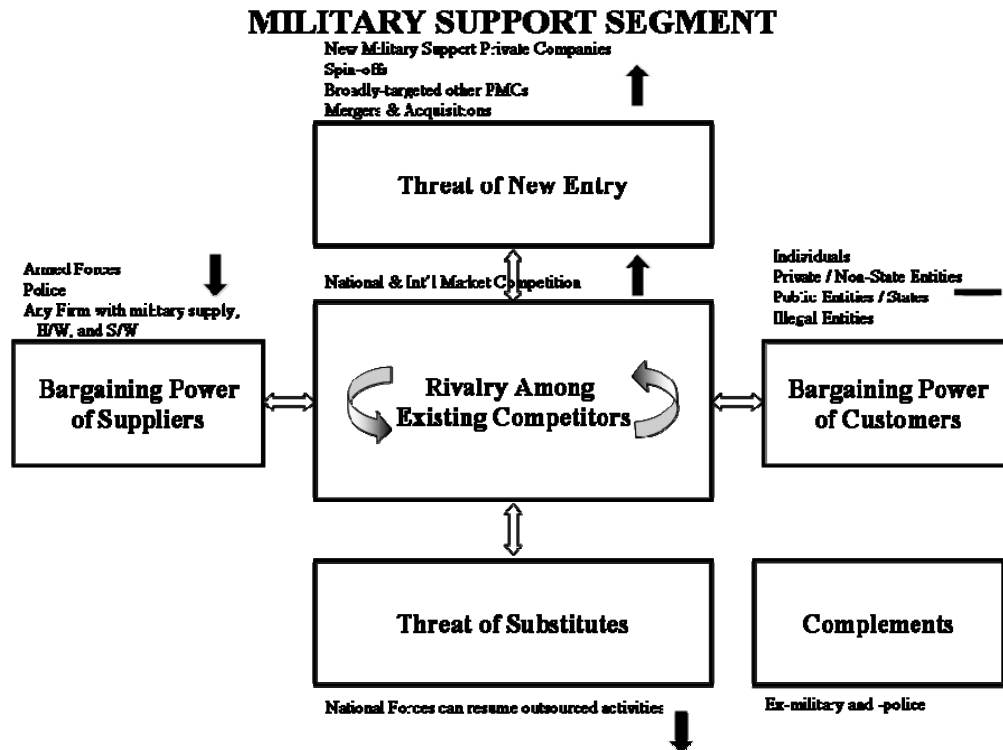


Figure 7. Five Forces Analysis of the Military Support Segment (After: Porter, M.E., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*)

1. Rivalry among Existing Competitors

Most of the companies in the segment are simple partnerships and individual proprietors, or specialized subcontractors with a focus strategy (narrow strategic target), like AirScan,²⁰⁵ which provides day and night air surveillance to a variety of customers. On the other hand, there are broadly targeted large corporations, such as Brown & Root Services (Kellogg, Brown & Root, a subsidiary of Halliburton), DynCorp, and ICI Oregon. For instance, Brown & Root has roughly 20,000 employees and takes many different military roles, such as engineering, construction, base camp operations and maintenance, power generation, refueling, transportation services, and many others.²⁰⁶

²⁰⁵ Brayton, *Outsourcing War: Mercenaries and the Privatization of Peacekeeping*, 308.

²⁰⁶ Singer, *Corporate Warriors: The Privatized Military Industry*, 319,332.

The demand for their services has resulted in the expansion of established companies and the dawn of new ones. Being far more diversified gives many advantages to the companies and most of them can get a contract without any big challenge except for specific service areas, like the maintenance of some strategic weapons systems. Thus, the rivalry among the existing competitors is high in the segment and most of its sub-segments.

However, most of the contracts, especially those opened by state governments, are only for national companies and some of them are awarded as sole-source contracts that result in diminished competition. Avant notes, “In the lead up to the 2003 US war with Iraq, for instance, Kellogg, Brown, and Root (KBR) received an open-ended contract to restore Iraqi oil fields after the conflict without having to compete with any other entity. The rationale for the non-competitive process was a classified contingency plan for rebuilding Iraq's infrastructure, which stated that KBR was the only company with the skills, resources, and security clearance to do the job on short notice.”²⁰⁷ The most important factor in this segment is that the services the clients are contracting for not only are important, but also often are crucial to their security. At the same time, the clients preserve a competitive market whose efficiency led them to outsource in the first place.²⁰⁸

2. Threat of New Entry

Unlike the other segments, companies in this segment can get extremely lucrative contracts, and the lucrative nature of the segment attracts many companies. In addition, if the demand is so great, as in Iraq, there will be no competition and if one PMC wants a contract, it is easy to get one.²⁰⁹

Although it is difficult to compete against the large competitors who achieved economies of scale and have high switching costs, many new companies can easily step into the segment by simply employing product differentiation.

²⁰⁷ Avant, *The Market for Force: The Consequences of Privatizing Security*, 128.

²⁰⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 151.

²⁰⁹ *Private Warriors*, DVD, directed by T. Mangini PBS, WGBH Educational Foundation, (2005).

Regardless of whether the demand in the segment is great, and whether the companies competing on the national or international basis, the overall threat of entry is high in almost all of the sub-segments.

3. Bargaining Power of Customers

First, customers' ability to influence competition among the companies grows when they purchase in large volumes. For example, Kellogg, Brown & Root (KBR), for its services in Iraq and Afghanistan earned over \$11 billion from US government contracts from 2002 to July 2004.²¹⁰ Although the US government has high bargaining power on the company, this dependency on privatization can result in the loss of expertise and capabilities, which can reduce its bargaining power.

Second, the bargaining power can be lower if there are many customers. For instance, "Contractors [in Iraq] work for a number of governmental agencies and nongovernmental organizations with humanitarian and political, rather than military, priorities..."²¹¹ and "...many of the civilian contractors doing logistical and reconstruction work in Iraq have hired a PMC to provide protection for their personnel."²¹² Thus, their collective bargaining power is low.

Lastly, if their services are crucial as in the security sub-segment described previously, and the clients have little or no information, or do not have the ability to influence the market, the bargaining power of the customers can be low. However, the large customers, especially national militaries, MNCs, and some international organizations can turn to their in-house capabilities or can establish these kinds of services in-house. Thus, it can be argued that the overall bargaining power of the military support segment is moderate.

²¹⁰ "Windfalls of War," The Center for Public Integrity, <http://www.publicintegrity.org/wow/resources.aspx?act=total> (accessed 12/23/2006).

²¹¹ Kidwell, *Public War, Private Fight? The United States and Private Military Companies*, 38.

²¹² D. Isenberg, British American Security Information Council, (2004), <http://www.basicint.org/pubs/Research/2004PMC.htm>, 28. (accessed 12/23/2006).

4. Bargaining Power of Suppliers and Threat of Substitutes

Because of the same or similar reasons to those previously discussed in the military consulting segment, the bargaining power of suppliers and threat of substitutes in this segment are low.

5. Complements

Even though not every company in the segment uses the complement (ex-military and –security personnel), the security sub-segment alone uses them considerably, and the effect of these personnel is far different from the other segments. First, there is no existing company in the military provider segment in which they can serve; second, the military consulting segment is much smaller than the support segment considering the use of this complement. This issue is causing a drain on the regular military, for instance in the Iraq war.

Deborah Avant argues, “in Iraq in May 2003 ... security contractors have flooded the country. The unstable environment has stretched coalition forces thin, and the absence of a U.N. mandate has made tools such as U.N. peacekeepers and international civilian police unavailable, drawing private security companies closer to combat as the Iraqi insurgency continues.”²¹³ Because of these,

[t]he better paying PMCs are now competitors for the best military talent in their home nations, or even outside of it. Losses of trained military forces to contractors is increasingly becoming a serious issue, especially for the Special Forces community. The large training expenditure in money and time (four to ten years, depending on job, to achieve a competency) with many leaving early or at the ten and twenty year points, is often not being realized by the military. Highly trained soldiers are a problem to replace in a short time and it leaves those left behind over burdened.²¹⁴

“Competition over elite troops from private companies,” David Isenberg states, “is so intense that the U.S. Special Operations Command has formulated new pay, benefits, and educational incentives to try to retain them.” He also adds “To counter this

²¹³ Avant, *Mercenaries*, 21

²¹⁴ Wallwork, *Operational Implications of Private Military Companies in the Global War on Terror*, 51.

[lure of short-term contracts], the British Army is offering soldiers' yearlong "sabbaticals" in an attempt to staunch the long-term damage being caused by troops leaving to take up private security work in Iraq. About 500 British soldiers a month are ending their military careers early. The Army, alarmed at the loss of some of its best men, has told soldiers that their jobs will be kept open for a year in the hope that they might consider returning."²¹⁵

F. ANALYSIS OF NONMARKET ENVIRONMENT

David Baron separates the environments in which a firm operates into market and nonmarket environments. "The market environment includes those interactions between the firm and other parties that are intermediated by markets or private agreements" and "the nonmarket environment includes those interactions that are intermediated by the public, stakeholders, government, the media, and public institutions." Then he argues that the nonmarket strategy shapes the firm's market environment.²¹⁶ To Michael Watkins, strategic shaping of the external environment, *corporate diplomacy*, is a core function that he likens to international diplomacy.²¹⁷

To perform this diplomacy, Watkins enumerates seven key elements:²¹⁸

- Diagnosing external interdependencies – roles of outside players, such as industry segments, governments and their agencies, NGOs, and customers: It is clear that most of the companies in the private military industry have already defined these external interdependencies, particularly large companies. Although Five Forces analysis provides a comprehensive industry analysis to a company, it is important for a PMC to deal with its external environment. For example, on the one hand many PMCs try to get a contract from NGOs. On the other hand, NGOs can influence states and international organizations on the degree to which actions of PMCs may be seen as legitimate.²¹⁹ It is also equally important considering the other interdependencies, such as the control and regulation of force in the

²¹⁵ Isenberg, 26-27.

²¹⁶ D. P. Baron, *Integrated Strategy: Market and Nonmarket Components*, Vol. 37 (Berkeley, California: Graduate Schools of Business Administration, University of California, 1995), 47,48.

²¹⁷ M. Watkins, *Winning the Influence Game: Corporate Diplomacy and Business Strategy* (Boston, MA: Harvard Business School Publishing, 2003), 1.

²¹⁸ Watkins, *Winning the Influence Game: Corporate Diplomacy and Business Strategy*, 2,3.

²¹⁹ Avant, *The Market for Force: The Consequences of Privatizing Security*, 50.

international community. Thus, if a PMC is to be successful, it should thoroughly diagnose its key external interdependencies and devise its plans.

- Identifying key influence games – games the businesses must play and their implications: Watkins argues that, “Governments [and the UN in this industry] act as rule makers... They act as referees... [and] are players.”²²⁰ Then, he names two different categories of business games. *Value-net* games relate to the creation, modification, and preservation of contractual relationships among players in the company’s value-net, and *public-interest* games concern the rules governing the conduct of business. The value-net gives the company’s network of relationships with customers, suppliers, competitors, and complementors.²²¹ As an example, Figure 8 gives a brief description of MPRI’s value-net.

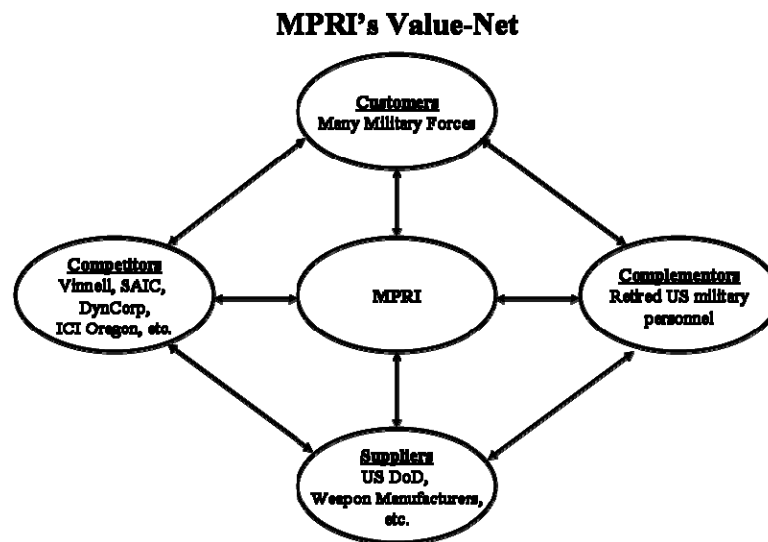


Figure 8. MPRI’s Value-Net (After: B. J. Nalebuff and A. M. Brandenburger, Co-Opetition)

In this value-net, MPRI works with many national military forces to train their militaries. It also works with its weapon suppliers to familiarize itself with new

²²⁰ Watkins, *Winning the Influence Game: Corporate Diplomacy and Business Strategy*, 1. See also, M. Watkins, *Government Games*, Vol. 44 (Cambridge, MA: Sloan Management Review Association, MIT Sloan School of Management, 2003).

²²¹ B. J. Nalebuff and A. M. Brandenburger, *Co-Opetition* (New York: Doubleday, 1996), 15.

technology weapons. Furthermore, it maintains arms-length relations with US DoD, not only for new business opportunities but also to track skilled military personnel who are about to retire.

By playing value-net games with others in its value-net, MPRI seeks to increase its bargaining power with respect to other players in the value-net. On the other hand, it also plays public-interest games to participate in the creation of, or at least to influence the regulations that can be set on national and international operations. Thus, it can avoid or reduce restrictions on its conduct imposed by regulatory authorities. For instance, it claims always to consult the US government before taking on a contract.²²² In 2001, it also managed to get a license to train the military of Equatorial Guinea (with which the US had bad political relations). MPRI argued, “since the country was anyway going to get the training it was better to have US firms supplying it than anyone else.”²²³ “Sandline, however, did not discuss its contract in PNG [Papua New Guinea] with the British government before it was signed. The regional tensions that resulted, particularly the Australian government's reaction, reportedly caused embarrassment in the UK.”²²⁴

- Defining objectives – determining whether to pursue opportunities, defend against threats, or a combination of the two: The emergence of the industry undoubtedly proves that most of the companies in the industry have managed to identify opportunities to claim more value. In addition, either an individual company or the industry association, IPOA, first works to preserve the status quo as a PMC extends its area of practice, then to alter it in their favor, mostly on regulation and legitimatization.
- Analyzing the players – the intended targets of influence, such as decision makers, opinion makers, and advisors: PMCs know that their first and foremost target of influence is the public, although governments and international organizations regulate their uses. Many companies in the industry have corporate websites on the Internet as an attempt to disassociate themselves from the mercenary label by keeping the public informed about their operations.

²²² Leander, *Eroding State Authority? Private Military Companies and the Legitimate Use of Power*, 120.

²²³ Ibid., 105.

²²⁴ Shearer, *Private Armies and Military Intervention*, 36.

On the other hand, in the US, many companies are playing the lobbying game to influence the government.

Employing mostly former senior government and military officers, the firms already enjoy broad familiarity with the government contracting process as well as informal connections with former colleagues and subordinates. But like any other mature industry, PMFs also feel they must employ lobbyists and make political campaign donations to stay ahead of each other. In 2001, ten leading private military firms spent more than \$32 million on lobbying, while they invested more than \$12 million in political campaign donations. Among the leading donors were Halliburton, which gave more than \$700,000 from 1999 to 2002, 95 percent to Republicans, and DynCorp, which gave more than \$500,000, 72 percent to Republicans.²²⁵

- Designing integrated influence campaigns – employing a mix of processes to achieve objectives, such as negotiation, coalition building, and public relations: These influence campaigns, especially coalition building, are evident when PMCs are used as foreign policy by proxy. In this fashion, both parties (government and PMC) can achieve their objectives. “Historically, PMCs have been used creatively by domicile states to enhance their foreign policy options. The symbiotic relationship between the United States government and its PMCs that we can observe today is certainly in this tradition.”²²⁶
- Creating detailed process plans – detailed plans for influence process: These plans are used to successfully implement influence campaigns, and differ from company to company.
- Building diplomatic capabilities – creating required structure and recruiting skilled personnel: PMCs are structured as typical firms and operate as businesses. Since they are businesses, they often have complex financial ties to other companies,²²⁷ and they require rapid responses to opportunities as well as crisis. To achieve developed organizational structures and skill sets, they are to recruit the best corporate staff. The corporate side of the company deals with these staff. However, in order to achieve comparative advantage against other companies, most of the PMCs recruit former personnel of national militaries; thus they can reduce the costs of training and maintain close relationships with former

²²⁵ P. W. Singer, “Warriors for Hire in Iraq,” The Brookings Institution, <http://www.brook.edu/views/articles/fellows/singer20040415.htm> (accessed 1/14/2007).

²²⁶ D. Whyte, “Lethal Regulation: State-Corporate Crime and the United Kingdom Government's New Mercenaries,” *Journal of Law and Society* 30, no. 4 (2003), 590.

²²⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 40.

colleagues who are still in the public sector.²²⁸ “It [this effort] also means putting in place coordination structures necessary to ensure that the company’s diplomats both understand strategic intent and have input into the formulation of strategy.”²²⁹

G. CONCLUSION

“The borders that experts in political science and international relations recognize are not the borders economists recognize. Instead, the boundaries that define the structures economists recognize are drawn by costs and benefits of the decision-making agent(s).”²³⁰

Private military industry is an emerging industry with several segments. It is easy to add many new segments. However, to better understand the industry, three broad segments are helpful for researchers and outsiders. If a company wants to come into the industry, change its segment, or extend its base into other segments, it should consider the target segment most carefully. Although some elements are quite common in all segments like complements, others have different relative factors and leverages. Thus, a company should not take a factor for granted when planning to operate in another segment; even unanalyzed niche segments have their own unique dynamics.

Furthermore, due to the nature of the industry many companies prefer to stay close to the decision-making process in their countries, thus creating business clusters. Then, they exploit the benefits of clustering even if they unknowingly establish them.

It is clear how PMCs have evolved and provided services where the clients are often lacking capabilities or reluctant to struggle against privatization. The overall industry has unique advantages for PMCs, and many PMCs can compete when they consider the industry analysis.

²²⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 77.

²²⁹ Watkins, *Winning the Influence Game: Corporate Diplomacy and Business Strategy*, 15.

²³⁰ Brauer, *An Economic Perspective on Mercenaries, Military Companies, and the Privatization of Force*, 13.

Bearing this in mind, it is possible that there will be a broader private military service menu for clients to choose from in the future²³¹ if the industry can maintain its innovativeness and overcome the problematic issues of regulation, ethics, legality, and political and social control of force that will be discussed in the next chapter.

²³¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 87.

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IV. LEGAL AND ETHICAL CONSIDERATIONS

A. INTRODUCTION

The private military industry, as described in the previous chapter, is highly fragmented. Many firms offer differentiated services to different kinds of clients. Though it is a lucrative industry for companies, the public domain in which they serve is one in which it is believed that the states should have a monopoly over the use of force. However, states no longer monopolize the exercise of military power; they no longer have total control over the power-violence agenda; and they have very limited, if any, control over the agendas of the PMCs.²³²

The increased involvement of PMCs in the use of power has been associated with many problems. Among these are criminal activities, transparency, accountability, coordination, growing divergence in security policies,²³³ legal definition, and control and authority over the use of force. Deborah Kidwell summarizes some of the problems as follows:

As profit-driven entities whose mission may derive from any conceivable source with funding, the services PMCs offer their clients do not necessarily derive from any compelling national or humanitarian interest. Only the written provisions of the contract define contractor responsibilities. These organizations are largely extralegal and are not bound or protected by the International Laws of War or typical rules of engagement. In fact, outspoken critics consider them to be simple mercenaries—warriors for hire outlawed by the Charter of the United Nations. Many PMCs frequently conduct operations in unstable, lawless situations and the old adage that power corrupts and absolute power corrupts absolutely can apply. In an unstable environment, PMCs are capable of becoming the law themselves. The extralegal status of these entities and other sovereignty questions have the potential to create international friction among allies and enemies alike, making joint and

²³² V. Newell and B. Sheehy, *Corporate Militaries and States: Actors, Interactions, and Reactions*, Vol. 41 (Austin, Tex.: University of Texas School of Law, 2006), 69-70.

²³³ E. Krahmann, "Private Firms and the New Security Governance," International Studies Association, <http://www.isanet.org/noarchive/krahmann.html> (accessed 01/02/2007).

multinational operations more difficult for regular forces. Moreover, PMCs may complicate civil conflicts by becoming just another belligerent party in an already complex security environment.²³⁴

B. POLITIC IMPLICATIONS

1. Accountability: Legislations and Regulations

Many scholars tend to equate mercenaries with PMCs. However, existing international provisions fail even to define mercenaries, and remain exceedingly ill equipped to regulate effectively the PMC activities.

In his thesis, Judge Advocate Todd Millard examines in detail the international provisions that attempt to regulate mercenary activities, and names the following: the Hague Conventions of 1907; the Geneva Conventions of 1949; the UN Charter and related resolutions; Article 47 of Protocol I; the Organization of African Unity's (OAU) declarations and conventions; the UN Mercenary Convention (International Convention Against the Recruitment, Use, Financing and Training of Mercenaries); and the Rome Statute of the International Criminal Court.²³⁵ "Tragically," he concludes "the elusive mercenary definition struggles even to reach the unaffiliated individual mercenary for which it was intended: a post-colonial rogue like Callan operating in 1976 Angola ... [For] professional PMC services, the definition is nearly worthless."²³⁶

Other than the provisions regarding mercenarism, no other rules of international law that prohibit or limit (regulate) the activities of PMCs exists. Aside from the difficulties of applying international provisions, there is an additional problem of whether international law can apply to PMCs. The US and the UK, the countries in which most of the PMCs operate or are based, are either not parties to Article 47 of Protocol I and the International Convention, or have not ratified them.²³⁷

²³⁴ Kidwell, *Public War, Private Fight? The United States and Private Military Companies*, 4.

²³⁵ T. S. Millard, "Overcoming Post-Colonial Myopia: A Call to Recognize and Regulate Private Military Companies" (Master of Laws (LL.M.) in Military Laws, The Judge Advocate General's School), 21-83, <http://handle.dtic.mil/100.2/ADA440071>. (accessed 1/14/2007).

²³⁶ *Ibid.*, 92.

²³⁷ A. H. de Wolf, *Modern Condottieri in Iraq: Privatizing War from the Perspective of International and Human Rights Law*, Vol. 13 (Bloomington: Indiana University, School of Law, 2006), 324, 325.

Enrique Bernales Ballesteros of Peru, the U.N. Special Rapporteur on Mercenary Activities, argues that domestic and international law must deal with the issue. He suggests that there should be oversight, regulation and monitoring mechanisms that clearly differentiate these companies from participation in armed conflicts and from anything that could be considered intervention in matters of public order and security that are the exclusive responsibility of the State.²³⁸

In 1997, the DSL firm had a contract with British Petroleum (BP) to ensure the protection of its pipelines in Colombia. In this instance, DSL employees trained a local military unit and reportedly fed the same unit with intelligence on local citizens who opposed BP's project. With this information, the Colombian military through associated paramilitary groups committed unlawful acts against its own citizens. Again in Colombia, Airscan, providing aerial security and reconnaissance to help protect Occidental Petroleum and Ecopetrol coordinated an air strike carried out by national air force pilots that killed 18 civilians, including nine children by mistakenly targeting the wrong village. In neither case were employees held accountable or punished.²³⁹

Due to lack of legislation both domestically and internationally, there are some quite striking examples on how some national and international courts ruled on the claims related to PMCs. For example, Papua New Guinea (PNG) argued that its 1997 contract with Sandline was illegal under its national constitution. However the International Tribunal, without questioning the legal status of Sandline under international law or the international legal *validity* of the contract and Sandline's activities, concluded that since the agreement between parties was an international contract, PNG could not rely upon its

²³⁸ General Assembly UN, *Report on the Question of the use of Mercenaries as a Means of Violating Human Rights and Impending the Exercise of the Right of Peoples to Self-Determination* (New York: UN, 2003), 9, [http://www.unhchr.ch/Huridocda/Huridoca.nsf/0/babd55569465515cc1256d9000394f4e/\\$FILE/N0341712.pdf](http://www.unhchr.ch/Huridocda/Huridoca.nsf/0/babd55569465515cc1256d9000394f4e/$FILE/N0341712.pdf) (accessed 12/03/2006).

²³⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 221.

own internal laws. In fact, the tribunal added that even if the contract was illegal under national law, this did not have any bearing on international law, because PNG was liable for the conduct of its officials who entered the agreement.²⁴⁰

The other example is a lawsuit filed in July 2004 in the US, on behalf of several victims against CACI and Titan Companies for the abuses in Abu Ghraib prison. The plaintiffs asserted claims under the Alien Torts Claims Act (ATCA) of 1789, government-contracting laws, and other common laws of wrongful treatment and tort claims. The companies moved to dismiss the claims, arguing lack of jurisdiction and the non-applicability of the ATCA since it does not cover torture by non-state actors. The district court of the District of Columbia granted a motion to dismiss all of the claims in August 2005 on the grounds of lack of jurisdiction since CACI is incorporated in the Netherlands. Regarding the ATCA claim, the district court held that “although acts of torture violate international law, the latter does not reach private, nonstate conduct of this sort unless it is claimed that the private actors were acting ‘under the color of state authority’.”²⁴¹

The last example is the first case to reach the courts and become public against contractors in Iraq under the federal False Claims Act of the US. In 2004, Custer Battles, a Rhode Island-based company bribed a contracting officer to steer contracts its way. The contracting officer in early 2006 agreed to plead guilty to bribery and other charges.²⁴² On the other hand, a federal judge in Virginia ruled that the False Claim Act only protects the US government from fraud and in fact, it did not suffer any direct economic loss from this fraud. At first, the jury ruled that the company should pay triple damage for the \$3 million the company was paid. However, according to the judge’s ruling the company did not have to repay the \$12 million²⁴³ (including the contract price) since the money came

²⁴⁰ de Wolf, *Modern Condottieri in Iraq: Privatizing War from the Perspective of International and Human Rights Law*, 326.

²⁴¹ Ibid., 354-355.

²⁴² C. R. Babcock, “Guilty Plea in Iraq Bid-Rigging: Contracting Officer Steered Jobs in Return for Cash, Favors,” *Washington Post*, 2006, http://www.washingtonpost.com/wp-dyn/content/article/2006/02/01/AR2006020102373_pf.html (accessed 2/2/2007).

²⁴³ 1:04cv199 (District Court for the Eastern District of Virginia Alexandria Division 2005).

from the Development Fund for Iraq (DFI) of the Coalition Provisional Authority (CPA) and the judge could not establish the status of CPA as an instrumentality of the US.²⁴⁴

The need for some type of regulatory framework became evident among the members of the industry, analysts, activists, and academics. It is argued that there are eight very important reasons why PMCs should be regulated:

- to ensure they do not adversely impact on peace, security and conflict resolution;
- to ensure that their use is both legal and legitimate and does not contravene human rights;
- to ensure that they do not undermine government policy;
- to prevent them from causing economic damage to their commercial clients;
- to ensure that they are made accountable both for their actions and for those of their employees;
- to make certain that they are as transparent as possible;
- to prevent them from shifting between legal and illegal pursuits; and
- to guarantee that they do not in any way undermine the sovereignty of states.²⁴⁵

Such needs and the ambiguity in definition result in inadequately regulated private military industry, both nationally and internationally. To act on these assumptions, on the one hand, some countries completely restrict mercenary activities. On the other, a few others pass laws and regulations on the use of PMCs. These legislations usually take one of three forms within host countries: a complete ban upon any military activity other than in support of the country's armed forces, regulation or complete prohibition of mercenary activity without any mention of PMC activities, and explicit regulation of PMC activity.²⁴⁶

²⁴⁴ Ellis, 53.

²⁴⁵ J. Kinsey, "Regulation and Control of Private Military Companies: The Legislative Dimension," *Contemporary Security Policy* 26, no. 1 (2005), 87-88.

²⁴⁶ N. Stinnett, "Regulating the Privatization of War: How to Stop Private Military Firms from Committing Human Rights Abuses," *Boston College International & Comparative Law Review* 28, no. 1 (2005), 218, http://www.bc.edu/schools/law/lawreviews/meta-elements/journals/bcicl/28_1/07_FMS.htm (accessed 1/2/2007).

Anna Leander compiled these regulation efforts of PMCs (in Western States she studied) into a table in relation to their services:²⁴⁷

Table 5. Regulation of Private Military Companies (From: Leander, A., *Eroding State Authority? Private Military Companies and the Legitimate Use of Force*)

Type of Regulation (service)	US	UK	France	Russia	South Africa	International level
Recruitment	X		X	X	X	X (UN, OAU)
Equipment	X	expected 2004	X		X	X (EU, OAU)
Supply of personnel	X		X		X	X (UN)
Advice	X				X	
Training	X		X	X	X	X (UN, partly EU, OAU)
Intelligence provision					X	
Logistics support					X	
Technical support	X				X	X (partly EU)
Financing			X?	X	X	X (UN, OAU)

Nevertheless, the above examples indicate that there are still many gaps in the legislation efforts. Considering the US has explicitly regulated the PMCs' activities, two of the lawsuits explained did not originate on behalf of the plaintiffs who were obviously ill treated.

2. Sovereignty: Control and Authority over the Use of Force

Janice Thomson articulates that states are sovereign externally since there is no higher authority in the international system, and internally because they monopolize the use of force and, therefore, political decision-making authority. Sovereignty has two dimensions; one is the claim to ultimate or final authority in a particular political space,

²⁴⁷ Leander, *Eroding State Authority? Private Military Companies and the Legitimate Use of Power*, 145.

and the second is the specific set of authority claims made by a state over a range of activities within this space, meaning that it specifies the particular things over which the state claims to be ultimate authority.²⁴⁸ During the 1900s, states extended their claims of monopoly control to cover the international space. Then, at the same time, Thomson argues, states gave up their authority to buy violence in the international market and to exploit non-state coercive capabilities, and this trend is not obsolete.²⁴⁹

In connection with sovereignty, Leander examines the impacts of PMCs on state authority. She considers these impacts in three ways: the direct effects, the indirect effects, and the diffuse effects as shown in Table 6.²⁵⁰

Table 6. Impacts of PMCs on Authority (From: Leander, A., *Eroding State Authority? Private Military Companies and the Legitimate Use of Force*)

Sphere of authority relations Form of Authority	The Military	Domestic Politics	International Society
Direct	PMCs deciding interpretation of intelligence, what military means to use and how	Shift in the institutions informed about and deciding on security matters (incl. contracts)	PMCs recognised as independent actors, making contracts and participating in dipl. processes
Indirect	PMCs, providing military training, strategic plans	PMCs lobbying policy-makers, administrators, organising seminars	PMCs providing background info., training, lobbying regarding dipl. affairs
Diffuse	PMCs accepted as experts on security and defense, possibly better than military experts	Private solutions considered inherently better than public ones; systematically sought and privileged	PMCs as stabilisers, de-consideration or blocking of usage of public international and national forces

²⁴⁸ Thompson, *Mercenaries, Pirates, and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe*, 11.

²⁴⁹ Ibid., 149-153.

²⁵⁰ Leander, *Eroding State Authority? Private Military Companies and the Legitimate use of Power*, 22.

The table gives brief results of her work. The first focus is on how the private military industry is affecting the authority inside the armed forces. She concludes that first, private actors gain authority in the armed forces, and second, the authority shifts linked to the privatization have been ill conceived and even more badly regulated.²⁵¹

Secondly, she looks at how the PMCs affect the state authority in the legitimate use of force in democratic polities. She argues first that by displacing the capacity to provide security beyond the control of state institutions, the public dependence on private actors diminishes the scope for authoritative decisions, and in addition, monitoring and control of their actions do not accompany the increased privatization and outsourcing. Second, by legal (lobbying) or illegal (corruption) means, the private industry tries to reshape the understanding of national security and the industry's role in it. Finally, because the previous finding is so important for the industry, companies would pursue issues, ideas and criteria that confirm their authority in security matters, and would disregard or denigrate other ones.²⁵²

In the international sphere, Leander concludes, "the development of a market for force diffuses authority of state and gives private firms direct control, by their direct impact on security understandings of governments and international institutions and by the diffuse impact it has on the faith placed in public and private actors."²⁵³ Here another consequence occurs. Because one of the key reasons for claiming national authority over the use of force internationally is plausible deniability, a useful tool for policy-makers, when the states put the responsibility on private firms (plausibly denying state involvement), the plausibility of denial can be contested by other states and lead to conflicts. Then, the question of who actually has the authority to act in international politics is uncertain.²⁵⁴

²⁵¹ Leander, *Eroding State Authority? Private Military Companies and the Legitimate use of Power*, 75-95.

²⁵² Ibid., 97-116.

²⁵³ Ibid., 117-135.

²⁵⁴ Ibid., 136.

C. CONTRACTUAL PROBLEMS

Many military support functions were and are contracted out for a long time. Contracting them out makes better sense for militaries in terms of both efficiency and mission accomplishment. Even though cost and quality problems frequently arise when the work is done in-house, when a contractor does it the same issues can occur. Singer highlights current and potential problems with the contractors. For example, when a *principal* (i.e., state) contracts out for services to an *agent* (PMC), the challenge of incomplete information always exists, and the agent can perform poorly or overcharge absent capacity when the principal lacks monitoring and oversight on the agent.²⁵⁵ For example, according to the General Accounting Office (GAO) of the US, due to the little control over the contractors' actions during the 1995-2000 period in the Balkans, contractor misdemeanors such as over stuffing, over billing, over production, and cost overruns caused the loss of billions of dollars.²⁵⁶

Another issue related to this is that some considerations, such as security, alliances, dependence on the original equipment manufacturer or a small number of companies with niche expertise require that contracts be awarded to national or regional PMCs. If the principal does not have enough options to choose from, then the competition may be limited, as may the quality of work. However, these problems are most likely to occur in military consulting and support segments. Given the previous successes of the companies in the military provider segment, it can be argued that this segment was not very prone to any failure.

Relatively long contracts (i.e., lifetime support contracts for technological weapon systems) create an essential monopoly once signed, even if competitively bid. When PMCs have an incentive to lower initial bids, knowing they can negotiate during the contract period, then they can use this to stake a claim of their unique expertise. Dependence may result in a reduction in the client's activity, especially for ones with

²⁵⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 151-152.

²⁵⁶ *Contingency Operations: Army Should Do More to Control Contract Cost in the Balkans* (Washington D.C.: United States, General Accounting Office, 2000), <http://www.gao.gov/new.items/ns00225.pdf> (accessed 11/21/2006).

limited resources.²⁵⁷ The result is a series of unique situations that makes efficient contracting based on precedent very difficult. That is, if incentives are too high, then the PMC can incur unnecessary costs.²⁵⁸ “The concern here is that profit-seeking contractors have scope for ‘ex-post rent extraction’ by exploiting uncertainties to increase the price of service delivery in ways not originally envisaged by the armed services at the contracting stage, thereby increasing the overall cost of service delivery.”²⁵⁹

Because the PMCs are for-profit organizations, naturally they seek ways to increase their profits. Different from the public militaries, the PMCs limit their expenditure by trying to get solutions that are more effective to ensure their profit margins. They can even use other means, such as bribery, distorting actual costs and over-charging, under performing, etc. Furthermore, even if the contract terms are not achieved as desired by the client, if the funds to pay the PMC are not available, then there is little incentive for a PMC to prolong its obligations.

In addition, although private military companies have shown a higher tolerance of casualties than UN forces, intolerable losses can also prompt premature departure, as in the case of GSG in Sierra Leone. Operations may therefore be cut short without regard for the consequences for stability. Conversely, it can be argued that a lucrative contract may itself act as an incentive to prolong violence and ensure larger payment. Fulfilling a contract successfully and quickly makes a security company redundant to its client.²⁶⁰

As mostly cited, it is not clear that contracting out saves money, even though it is the major reason why PMCs have been seen as a cost saving measure. Besides, military provision might be more cost-effective for some functions where PMCs have incentives to behave opportunistically, future requirements are uncertain, and the number of potential external suppliers is small.²⁶¹ To show that outsourcing can be costly, Avant

²⁵⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 155.

²⁵⁸ S. R. H. Jones and S. P. Ville, “Efficient Transactors or Rent-Seeking Monopolists? The Rationale for Early Chartered Trading Companies,” *The Journal of Economic History* 56, no. 4 (1996), 904.

²⁵⁹ M. Uttley, *Contractors on Deployed Military Operations: United Kingdom Policy and Doctrine* (Carlisle, PA: Strategic Studies Institute, U.S. Army War College, 2005), 18.

²⁶⁰ Shearer, *Private Armies and Military Intervention*, 70.

²⁶¹ Uttley, *Contractors on Deployed Military Operations: United Kingdom Policy and Doctrine*, 19.

quotes that “A 1999 RAND report on privatizing the Reserve Officers’ Training Corps (ROTC) estimated that it would cost an additional \$10,000/year/instructor to use contractors.”²⁶²

Lastly, the industry personnel, mostly being ex-public servants, can make recommendations or influence policy to generate additional contracts from which their company or industry will benefit, which can raise ethical questions. Because many PMCs operate in the gray areas where interests are not so clear, they can cause private advantages, even unconsciously.²⁶³ This issue will be discussed with a different perspective in the next chapter.

D. ETHICAL CONCERNS

In fact, the undetermined definition of the industry, uncertainty as to where it belongs, and contractual problems are mostly (if not wholly) related with ethics. The domains of responsibility and accountability, which are believed to be the source of unethical behavior, are already discussed in previous sections. Therefore, following are some other concerns caused when PMCs are employed.

It is argued that when humanitarian NGOs hire PMCs, the potential perception is that they have hired ‘mercenaries’. Furthermore, “[t]here is an implicit, and sometimes explicit, argument that all profit motivated organisations are by definition ‘unprincipled’, where as all not-for-profit organisations are on the contrary by definition ‘principled’. Public perception would deeply undermine the credibility of an agency connected with those events and claiming to be impartial.”²⁶⁴ This issue creates another dilemma for NGOs. They might be perceived as being a part of an armed organization or ‘the others’, which causes risk for NGOs. Such perceptions can significantly damage NGOs’ public images.

²⁶² Avant, *Privatizing Military Training*.

²⁶³ Singer, *Corporate Warriors: The Privatized Military Industry*, 351-352.

²⁶⁴ T. Vaux and others, *Humanitarian Action and Private Security Companies: Opening the Debate* (London, UK: International Alert, 2002), 10, <http://www.international-alert.org/publications/getdata.php?doctype=Pdf&id=88> (accessed 10/31/2006).

As profit-seeking organizations, PMCs directly benefit from the existence of war and suffering.²⁶⁵ Being private entities paid to provide services that the states traditionally are supposed to handle, it can be assumed that as a rule, they are more interested in doing as well as they are paid for than in doing good.²⁶⁶ For example, in 1995, EO helped Sierra Leone's army defend its capital, but later the company found the army unreliable in retaking the country's diamond mines, which were key to its payment. The company turned instead to local militias and unintentionally created a parallel force, which led to a coup.²⁶⁷

Another concern is that PMCs, in most cases, with direct market incentives can and do sell their services to whomever they desire, even to rogue clients. Even if building a brand name and creating a positive public image are the major drivers for the industry, when faced with competition, some companies may seek ways to differentiate and/or do anything for the right price against the norms that the industry tries to establish.

The last troublesome point is the industry's effect on public good, as security is outsourced to PMCs. Although economists seem to refer to security as a joint product of public and private goods, when it is a profit-driven exercise it has a potential risk to create *commercial enclaves*, from which the wealthy or a group are largely favored. For its protection, investment conglomerate Lonrho contracted with DSL during the Mozambique war, then switched to Nepalese Gurkhas from Gurkha Security Guards. The new protection with its 1,400-strong militia, watchtowers, and tanks provided great protection where the company was located, but the rest of the local society suffered from rebel attacks that shifted to less-protected areas.²⁶⁸

E. CONCLUSION

"Despite wide ranging concern ... PMCs are a *de facto* extension of the foreign policy of their state of origin. They, in the main, offer a low-risk, low-cost, low-visibility way to exert military influence in a time of diminished budgets and shrinking armed

²⁶⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 216.

²⁶⁶ Ibid., 217.

²⁶⁷ Avant, *Mercenaries*, 24.

²⁶⁸ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 227.

forces. Those entities that continue to exist in the ‘1960s and 1970s mercenary mould’ now seem to be under such close scrutiny that the various authorities often interdict their operations.”²⁶⁹

“Even legitimized monopoly of force can corrupt, especially if there is no opportunity for *recall*, *replacement*, and *substitution* and no provision for *latent complementary force*... [T]here is potential for conflict between the agent ... and the principal ... on account of asymmetric information and agency costs (incentives to shirk, incentives to be corrupted, supervision and monitoring costs ... and so on). In any event, a coercively financed public monopoly ... can be complemented by private defensive and offensive security spending.”²⁷⁰ However, without legal consequences for any PMC activity, the public would continue to equate them to mercenaries, even if they claim to work only for legitimate customers and are closely scrutinized.

In fact, in most cases PMCs are generally more effective than most of the clients’ in-house capabilities. They can offer a large, highly educated/trained personnel pool for nearly any given job. If their legal status, code of conduct, and ethics can be regulated, their use can be a very practical solution to many militaries and other legitimate customers.

²⁶⁹ Wallwork, *Operational Implications of Private Military Companies in the Global War on Terror*, 58.

²⁷⁰ Brauer, *An Economic Perspective on Mercenaries, Military Companies, and the Privatization of Force*, 8.

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V. USE OF PRIVATE MILITARY COMPANIES

A. INTRODUCTION

As Singer suggests, the history indicates that the private military actors will continue to play a significant and increasing role in the security environment, and as well as for its clients. Furthermore, the same structural conditions that led to the industry's growth still exist,²⁷¹ and factors that did not contribute to the bottom line are ideal candidates for its burgeoning. The industry is capable of utilizing its inherent capabilities, such as efficiency, effectiveness, and cost savings to provide services better than established militaries. Yet, the impediments of accountability and lack of legislation, both nationally and internationally lessen the exploitation of the industry for a good portion of the world.

The high usage of British and American PMCs in Iraq has drawn public attention to the industry, along with many questions. Coalition forces benefit in many ways from the industry. On the other hand, not only are conflict zones like Iraq the industry's playground, but domestic markets as well. Even though countless companies serving domestic military and security needs are not considered part of the industry, this is only because either the home countries do not involve themselves in any conflicts and wars to provide employment to them, or the companies prefer to be regarded as members of other industries for fear of being labeled as mercenaries.

However, if the industry could be used under established norms and regulations, it would provide many opportunities for its members, clients, and even for third parties (such as the UN). This chapter shows how PMCs can be used economically if all the related problems of the industry (accountability and others) are solved.

B. TRANSACTIONS-COST ECONOMICS OF PMCS

In a competitive spot market, buyers are presumably aware of the hazards of the exchange. In other exchanges, contracts cover partially some of the hazards. "In the case of each agent agrees to limit the range of actions it might otherwise have, thus during

²⁷¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 230.

implementation individual incentives can be attenuated ... [however,] In the extreme case, the hazards are so great that the costs of monitoring, enforcement, dispute resolution, and renegotiation (all transaction costs) can be minimized by integration of the parties, hence a hierarchy.”²⁷²

Transactions-Cost Economics (TCE) is an approach to address the question of ‘make-or-buy’ decisions. TCE answers the fundamental question of ‘Why do firms not individuals deal with each other through market transactions?’ The answer is simply because the firms in the market reduce the inherent transaction costs, some of which are uncertainty, asset specificity, frequency²⁷³ and probity²⁷⁴ of transactions.

Transaction costs include the cost of designing and negotiating the contracts, and the ex-post implementation of contracts through to completion including monitoring, enforcement and settlement of disputes. Furthermore, transactions are presumed to be repeated, so that some costs that might occur (i.e., negotiation) might also be important in the future.²⁷⁵ Therefore, any increase of these increases overall costs, “including the costs of obtaining information, negotiating the terms of the transaction, and any re-negotiating necessitated by changing circumstances.”²⁷⁶ Although transaction costs relate to the non-price costs of making a commercial exchange, they can eventually cause monetary losses. For example, in France 56% of defense procurement contracts are re-negotiated, and such re-negotiations cause an average price increase of 4.64% per contract, with some increases reaching 30%.²⁷⁷

²⁷² L. McDonough, *The Industrial Structure of National Defence and Transaction Costs* (Kingston, Canada: Royal Military College of Canada, 2003), http://www.rmc.ca/academic/poli-econ/idrm/papers/2003-5_e.html#_ftnref2. (accessed 02/11/2007).

²⁷³ J. E. Fredland, “Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies,” *Defense and Peace Economics* 15, no. 3 (2004), 209.

²⁷⁴ Oliver Williamson first discusses probity hazard in TCE. See O. E. Williamson, *Public and Private Bureaucracies: A Transaction Cost Economics Perspectives*, Vol. 15 (New Haven, Conn.: Yale University Press, 1999), 322-324.

²⁷⁵ McDonough, *The Industrial Structure of National Defence and Transaction Costs*.

²⁷⁶ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 209.

²⁷⁷ J. M. Oudot, “Renegotiation of Defense Procurement Contracts” (Chicago, American Economic Association, 2007), http://www.aeaweb.org/annual_mtg_papers/2007/0105_0800_1502.pdf (accessed 02/13/2007).

Asset specificity is the transferability of assets that support a given transaction. Highly asset-specific investments (also called relationship-specific investments) represent costs that have little or no value outside the exchange relationship. Asset specificity has already often been used to evaluate a choice of whether to perform a transaction or activity internally (vertically integrate) or in the market (outsource) ... Uncertainty refers to the unanticipated changes in circumstances surrounding a transaction. This uncertainty could preclude both the formation of a contract ex ante and/or the ability to verify compliance ex post ... The uncertainties increase the need to continually update contracts and costs of negotiations, in turn, the transaction costs are increased.²⁷⁸

Frequency is the situation where the provision of a good or service is used. If a good or service is very rarely used, then the buyer would never want to integrate vertically. Lastly, probity is the loyalty and rectitude with which the transaction is discharged. Probity is especially used for sovereign transactions of public agencies.²⁷⁹ Accordingly, transactions can be frequent or rare, have high or low uncertainty and probity, or involve specific or non-specific assets (ranging from highly asset specific to non-specific assets). Figure 9 captures the ‘make-or-buy’ decision criteria by using the TCE analysis.

²⁷⁸ H. Hsiao, van der Vorst, J.G.A.J. and S. W. F. Omta, *A Decision Framework for Levels of Logistics Outsourcing in Food Supply Chain Networks*, 2005, 10, www.univie.ac.at/EMNET/download/HsiaoVorstOmta.doc (accessed 02/13/2007).

²⁷⁹ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 209.

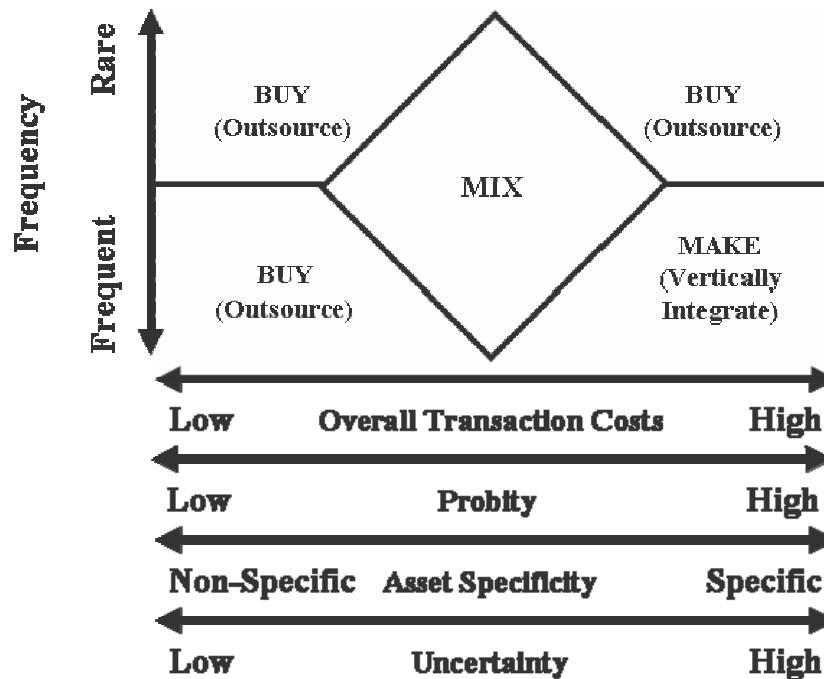


Figure 9. Make-or-Buy Decision

1. TCE and the State Defense Activities

After the Peace of Westphalia, national sovereignty has become crucial for the state, and defense activities seemed best conducted by a public agency. When describing the TCE of defense activities in this trend, Eric Fredland suggests that the costs of contracting out war-fighting capability are obvious. Then, he adds, although the transaction cost of the frequency imposes burden to the state, in fact it presumably has less relevance. On the other hand, the inevitable uncertainties that may greatly change the quantity of resources needed to accomplish an objective, and even the change of objective itself require that contracts not be drawn to cover all unforeseen contingencies. Military hardware as an asset specificity does not have value (with some exceptions) in alternative uses, and military training has little value in alternative uses. However, probity is crucial and “[f]ighting on behalf of the state belongs on any list of sovereign transactions.”²⁸⁰ According to Oliver Williamson sovereign transactions of the states

²⁸⁰ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 210.

(foreign affairs, the military, foreign intelligence, managing the money supply and, possibly, the judiciary) are characterized by particular asset specificity and probity.²⁸¹

a. TCE and the Military Provider PMCs

A contract between a state and a PMC involving combat support will inevitably be quite incomplete. As in PNG and the Sandline contract in 1997, the company should have information on the strength of the opposition to have a basis for negotiating the contract, and even with good information, unforeseen future events can occur and necessitate an expansion and/or different mix of resources (through re-negotiation).²⁸²

In the contract, Fredland argues, there was no language clearly explaining what ‘rendering the Bougainville Revolutionary Army militarily ineffective’ meant, leaving successful completion of part of the primary objective open to interpretation. The contract identified the payment based on the level of effort exerted by Sandline, not on the result, and commitment of additional resources required a contract amendment. The hazard of asset specificity was present in the contract, but the dependency was not symmetrically bilateral. The firm could threaten to walk away from the contract, might be able to find alternative employers of its military capabilities, would expect to re-negotiate the contract if the fight proved more difficult than expected, and in any case, the government was more vulnerable to hold-up²⁸³ than was the company. Furthermore, because the company had no loyalty to the PNG government and its leadership, the hazard of probity was high. Fredland concludes that, due to the degree of contractual hazard governments “would be best served by fighting their battles themselves.”²⁸⁴

²⁸¹ Williamson, *Public and Private Bureaucracies: A Transaction Cost Economics Perspectives*, 321-322.

²⁸² Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 211.

²⁸³ The risk that a buyer can become too dependent on the provider of an outsourced activity and that the provider can raise prices beyond a previously agreed-upon rate.

²⁸⁴ *Ibid.*, 211-212.

On the other hand, because most of the time state militaries are in place but idle, being able to hire a PMC only when needed represents a significant saving for the state even if “[t]he hazard of probity may be as great or greater for an internal public force as compared with a private contractor.”²⁸⁵

Countries like the UK and US that have many PMCs benefit from the contracts of PMCs with other clients. This is because firstly, the PMCs as a rule do not work against the interests of their home countries,²⁸⁶ and secondly, the PMCs can reduce the transaction costs of the home countries that they otherwise incur by using their own forces.²⁸⁷ However, the country (buyer) contracting with the PMCs is vulnerable to hold-up due to asset specificity, and the probity hazard is obvious due to process integrity and loyalty considerations to the PMC’s home country.

b. TCE and the Military Consulting and Military Support PMCs

Military consulting and military support PMCs do not clearly involve sovereign transactions.²⁸⁸ The frequency of the services used is much greater than the frequency of the requirement of military operations. Although the hazard of frequency depends on the requirement urgency of the state, it could be concluded as moderate or frequent. The country using this type of PMC faces less uncertainty of contractual hazard, thus less re-negotiation effort. Asset specificity hazard would be lower than with the use of a military provider PMC, because there would be more potential suppliers of the required services and timing (required time for the contract process) would not be a crucial consideration in most cases. In addition, the country would probably be able to produce these services in-house. The probity hazard too would be less because the home government’s national force, and not the service provider’s personnel, is required to be loyal and responsive to the buyer.²⁸⁹

²⁸⁵ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 212-213.

²⁸⁶ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 75.

²⁸⁷ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 213.

²⁸⁸ *Ibid.*, 215.

²⁸⁹ *Ibid.*, 214.

Although it seems reasonable to buy from the market, buying these services (outsourcing) often requires extensive administrative and regulatory structures to oversee the delivery of services by PMCs, and thus involves a process of re-regulation.²⁹⁰ Furthermore, numerous studies suggest that the potential for cost savings of contracting out these kinds of services is not easily achievable.²⁹¹

When a country uses its own PMCs to provide these services, asset specificity would not be an issue, because the country presumably has its own capability to provide the same services. The uncertainties in the contract between the PMC and the state could be higher if the state is paying the bill. However, it could be less when another country or organization is the contracting party and paying the bill,²⁹² as in MPRI's contract with the Bosnian Federation.²⁹³ However, a large probity hazard could appear for the home country. Because when a government uses a PMC as an extension of foreign policy, there could be collusion with the Legislature. On the other hand, for the home government contracts could be cheaper from the budgetary point of view.²⁹⁴

2. TCE and Other Buyers

Military organizations are the prime example of hierarchical structure where transactions are more efficiently performed within the organization than through a market. By contrast, other actual and potential buyers of PMC services, mostly due to the lack of own security capability and its hierarchical structure need more coordination mechanisms to lower the transactions costs, with the exception of some international military alliances. Furthermore, because most of these buyers are inclined to use PMCs

²⁹⁰ F. Schreier and M. Caparini, *Privatising Security: Law, Practice and Governance of Private Military and Security Companies* (Geneva: Geneva Centre for the Democratic Control of Armed Forces (DCAF), 2005), 98.

²⁹¹ Avant, *Mercenaries*, 22.

²⁹² Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 214.

²⁹³ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 128.

²⁹⁴ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 214-215.

internationally, “[t]esting transaction cost hypotheses in international relations is complicated by the vagueness of definitions of the concept, difficulty in measuring transaction costs, and problems of transaction cost estimation.”²⁹⁵

Because most of the buyers are one-time buyers, the hazard of frequency is sometimes not relevant and at other times can range from occasional to rare. On the other hand, other transaction costs could be dramatically higher than with national militaries. The probity hazard of military operation services has significance on some of these buyers. First, it can be argued when some organizations such as the UN and international military alliances use the PMC services. PMCs could presumably have no loyalty to these organizations. In this instance, the probity hazard to the buyer would be at least the same or higher than the national militaries, since these kinds of buyers are seen mostly as the ultimate authority for implementation of the international rule of law. Second, probity requires process integrity, which could be diminished through non-compliant or adventurous activities of PMCs. Alternatively, in the case of contracting military consulting and support services, this hazard is not relevant for the buyer.

Any analysis of the uncertainty hazard must recognize that some buyers “such as the UN and the African Union ... are internally complex, and highly interpenetrated by their organizational environments, which consist largely of member states but also of NGOs, other intergovernmental organizations, and “global civil society” more generally.”²⁹⁶ Consequently, not having any previous experience with PMCs or in-house capability of the required service causes misunderstandings and disputes between the buyers and PMCs. Besides, the uncertainty about how to obtain the buyer’s requirement increases the hazard. However, a few MNCs could have some related capabilities, like a small security unit or some kinds of training, logistics units, etc. Then, for these buyers the uncertainty could be low or moderate depending on the required service.

²⁹⁵ M. Lipson, “Interorganizational Coordination in Complex Peacekeeping” (Honolulu, Hawaii, International Studies Association, 2005), http://alcor.concordia.ca/~mlipson/isa_proceeding_58207.pdf (accessed 2/10/2007).

²⁹⁶ Lipson, *Interorganizational Coordination in Complex Peacekeeping*.

When transactions involve highly specific assets, like special training, or equipment for interoperability (in the case of the UN and military alliances), transaction costs will likely tend to be high. Furthermore, the frequency of the requirement overwhelms this consideration to some degree.

Although the range of the military consulting and support services other buyers require would generally be undersized when compared to the state militaries, the uncertainty hazard can be concluded as high. The reason is that these services are not daily undertakings for these buyers, and would possibly include requirement uncertainties and in turn re-negotiations of the contracts. On the other hand, if the transaction involves assets that are valuable in the context of the specific transaction, such as specially trained personnel and weapon systems for security, then the hazard of asset specificity can range from moderate to high.

C. MAKE-OR-BUY

The above potential use of PMCs for different types of buyers is discussed from the perspective of transaction cost economics. The TCE approach suggests that inevitable contractual hazards can limit the role of PMCs, despite potential savings. The findings for the buyers when deciding to provide their own services (vertically integrate or continue to use in-house capability) or buy through the market (outsource) are as follows:

Table 7. The Use of PMCs for Different Buyers

Buyers	Military Provider PMCs					Other PMCs				
	Probity	Frequency	Asset Specificity	Uncertainty	DECISION	Probity	Frequency	Asset Specificity	Uncertainty	DECISION
State Militaries	High	Rare	High	High	MAKE	Mod. Low	Freq.	Mod. Low	Mod. Low	BUY

	Military Provider PMCs					Other PMCs				
Buyers	Probity	Frequency	Asset Specificity	Uncertainty	DECISION	Probity	Frequency	Asset Specificity	Uncertainty	DECISION
Intergovernmental and Non-Governmental Organizations / Military Alliances	High	Rare	High	High	MIX	N/A	Rare	High Mod.	High	BUY
Private Entities (MNCs, National Corporations, etc.)	N/A	Rare	High	High	MIX	N/A	Occ.	High Mod.	High	BUY

Table 7 suggests that contracting out operational capability to a PMC is not a favorable use for the state militaries mainly because of the sovereign transactions and the probity hazard; thus, it is better that the state militaries depend on their in-house capability.

Although the table implies the possible use of a military provider PMC as a mix of vertical integration and outsourcing for all other buyers, each buyer should carefully decide on the issue. For example, the industry proponents argue that military provider PMCs might “have a role in enabling the UN to respond more rapidly and more effectively in crises.”²⁹⁷ However, the probity hazard discussed above limits this usage. On the other hand, presumably, most of the private entities and NGOs would not consider the vertical integration due to the frequency hazard. Besides, this type of requirement is so exceptional that buying this service through a market transaction is even a matter of dispute itself.

²⁹⁷ Schreier and Caparini, *Privatising Security: Law, Practice and Governance of Private Military and Security Companies*, 19.

Fredland argues the use of other services by the states. “While war-fighting is sovereign, not all activities of military forces are obviously so, and the production of at least some inputs used to conduct defense activities does not involve sovereign transactions. National defense is very resource costly, so there is potential for large saving by taking advantage of the high-powered incentives residing in market transactions. Thus, despite uncertainty and asset specificity hazards, the production of defense hardware is contracted-out.”²⁹⁸ Although he considers only the use of military consulting and support PMCs by the states, it is also evident other buyers have equal or higher transaction costs, which result in a ‘to buy’ decision for these services. However, “[t]he simple fact that one can outsource does not always mean one should. Rather, each decision should be given due consideration and not be taken before a fully informed, risk-based assessment.” Moreover, “[e]vidence suggest that carefully managed privatization can, under the right circumstances, provide specialized expertise, save money, and result in improved service delivery. It also shows, however, that poorly managed outsourcing, or privatization under the wrong circumstances, can lose money and result in poor delivery.”²⁹⁹

On the other hand, TCE suggests that, apart from the probity hazard, asset specificity gives considerable rise to transaction costs depending upon the level of the specificity. This requires the continued production of highly specific assets in-house. “However, the cost associated with such specialization could lead to a special case of hybrid organization – the cooperation of rivals.”³⁰⁰ For example, ‘training’ as asset specificity could lead to hold-up problem. The trained military personnel (such as doctors, pilots, lawyers, etc.) could increase their returns in the market, even if their salaries are differentiated. In this case, the hazard would be low to some extent, because it would presumably mean that the same training could be bought through a market transaction. Thus, the ‘buy’ decision is prevalent, and “contracting for these services

²⁹⁸ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 210.

²⁹⁹ Schreier and Caparini, *Privatising Security: Law, Practice and Governance of Private Military and Security Companies*, 99, ii.

³⁰⁰ McDonough, *The Industrial Structure of National Defence and Transaction Costs*.

where the period of time and services to be rendered can be easily specified.”³⁰¹ Conversely, if the required training has little to no value in the market (such as specific technical training), then, together with a ‘make’ decision, “[t]he argument extends, moreover to include hybrid modes – long-term contracts, franchising, joint ventures, and the like”³⁰² and would carry hazard-premium³⁰³ (higher price) for the buyer.

D. CONCLUSION

The central feature of the TCE is the relation between outsourcing and the economics of contracting, and it suggests that firms or organizations are at equilibrium by maximizing their profits while minimizing their costs through the control of transaction costs. The variables used to characterize any transaction deal with the decisions about whether to integrate vertically or to produce in-house.

The private military industry offers several advantages to the buyers, and the TCE analysis shows the potential areas of how to use them. However, as Fredland points out the belief that the use of PMCs could lessen the hazards of privatizing defense is doubtful and “[w]hile there are tasks that can be privatized, the uncertainties inherent in military situations make efficient contracting between the state and a PMC inevitably problematic.”³⁰⁴ As to the other buyers, “the transaction costs analysis shows that the costs of managing contracts, including arranging bids, monitoring outcomes, and taking legal action for contract failures, may offset any efficiency savings.”³⁰⁵

³⁰¹ McDonough, *The Industrial Structure of National Defence and Transaction Costs*.

³⁰² O. E. Williamson, “Strategizing, Economizing, and Economic Organization,” *Strategic Management Journal* 12, no. Special Issue (1991), 80, <http://links.jstor.org/sici?sici=0143-2095%28199124%2912%3C75%3ASEAEO%3E2.0.CO%3B2-8> (accessed 02/23/2007).

³⁰³ *Ibid.*, 81.

³⁰⁴ Fredland, *Outsourcing Military Force: A Transaction Cost Perspective on the Roles of Military Companies*, 215-216.

³⁰⁵ Schreier and Caparini, *Privatising Security: Law, Practice and Governance of Private Military and Security Companies*, 98.

VI. ENTREPRENEURIAL ASPECTS

A. INTRODUCTION

The study of entrepreneurship makes the understanding of the business landscape complete on collective theories of markets, firms, organizations, and change. The first reason for this assumption, as Shane and Venkataraman argue, is that entrepreneurship is a mechanism that helps society convert technical information into products and services. The second reason is its role of discovering and mitigating inefficiencies in an economy. Its role in driving the change process through innovation in products and processes is the last reason.³⁰⁶ Thus, to look at entrepreneurial aspects of the private military industry that have seen “the latest military innovation”³⁰⁷ would help to understand the mechanisms of the industry.

B. ENTREPRENEURSHIP AND INNOVATION

Two of the main discussions on entrepreneurship belong to Joseph A. Schumpeter and Israel Kirzner. According to Schumpeter, entrepreneurship is a theory of change and development. He describes development as “spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing.” He defines enterprise as the carrying out of new combinations to introduce a new good or method of service, new market, new sources of supplies, or new organization of an industry, and describes the person who carries out these functions as an entrepreneur.³⁰⁸

³⁰⁶ S. Shane and S. Venkataraman, “The Promise of Entrepreneurship as a Field of Research,” *The Academy of Management Review* 25, no. 1 (2000), 219, <http://links.jstor.org/sici?sici=0363-7425%28200001%2925%3A1%3C217%3ATPOEAA%3E2.0.CO%3B2-Q> (accessed 02/11/2007).

³⁰⁷ L. W. Serewicz, “Globalization, Sovereignty and the Military Revolution: From Mercenaries to Private International Security Companies,” *International Politics* 39, no. March (2002), 85.

³⁰⁸ J. A. Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* [Theorie der wirtschaftlichen Entwicklung], trans. R. Opie (New York: Oxford University Press, 1961), 64-74.

To Kirzner, this definition as well as many others has the element of alertness to opportunities,³⁰⁹ which consists “in the ability to notice without search opportunities that have been hitherto overlooked ... [and] may also include the ability to notice opportunities for profitable deliberate search.”³¹⁰ Thus, his ‘entrepreneurial discovery’ or ‘entrepreneurial alertness’ complements Schumpeterian entrepreneurial macro development by demonstrating the alertness as the micro cause of market-based entrepreneurship.³¹¹ Kirzner adds that the grasping of opportunities that somehow escaped notice is to be seen as the entrepreneurial innovation.³¹²

On the other hand, Eckhardt and Shane put the entrepreneurship theory outside the equilibrium orientation that comprises much of the theory and perceives the “entrepreneurship as a function of the types of people engaged in entrepreneurial activity and, as a result, have largely overlooked the role of opportunities.”³¹³ After discussing the limitations of the price system that in some situations provides insufficient information to allocate resources, they assert that efficiently guiding the resource allocation decision can be done through mechanisms other than optimization. Thus, “[e]ntrepreneurs bring new means-ends decision making frameworks into the price system by forming perceptions and beliefs about how to allocate resources better than they are currently allocated or would be allocated in the future on the basis of information not incorporated in prices.”³¹⁴ In order to achieve entrepreneurial discovery, entrepreneurs should seek the opportunities that manifest themselves in three dimensions: “by the locus of the changes that generate the opportunity; by the source of the opportunities themselves; and by the initiator of the change.”³¹⁵

³⁰⁹ I. M. Kirzner, *Perception, Opportunity, and Profit: Studies in the Theory of Entrepreneurship* (Chicago: University of Chicago Press, 1979), 8.

³¹⁰ Ibid., 148.

³¹¹ G. E. Shockley and others, *Toward a Theory of Public Sector Entrepreneurship* (Speyer, Germany: German University of Administrative Sciences, Aula, 2003), 2.

³¹² Kirzner, *Perception, Opportunity, and Profit: Studies in the Theory of Entrepreneurship*, 115.

³¹³ J. T. Eckhardt and S. A. Shane, “Opportunities and Entrepreneurship,” *Journal of Management* 29, no. 3 (2003), 334.

³¹⁴ Ibid., 338.

³¹⁵ Eckhardt and Shane, *Opportunities and Entrepreneurship*, 340.

C. OPPORTUNITIES AND THE PRIVATE MILITARY INDUSTRY

1. The Locus of the Changes That Generate the Opportunity

When a change occurs in products or services, entrepreneurial opportunities occur. According to Schumpeter, there are five different loci of these entrepreneurial opportunities. These are changes stemming from the creation of new products or services, the discovery of new geographical markets, the creation or discovery of new raw materials, new methods of production (or services), and new ways of organizing.³¹⁶

a. The Creation of a New Good or Service

Assuming the private industry as free from any legal consideration and perception of being a mercenary activity, the industry is a newly created service for the needs of a variety of buyers. As Singer argues PMCs “represent the next evolution in the provision of military services by private actors, parallel to the development of the modern business organization.”³¹⁷ Furthermore, entrepreneurs with military expertise caused the emergence of “the new business face of warfare”³¹⁸ and with better prices and efficiencies, some military resources are currently available on the open market for even individual clients.³¹⁹

b. The Discovery of New Geographical Markets

Although the private military industry appears to be a global industry,³²⁰ there is always a good chance of finding new markets. As discussed in previous chapters, most of the PMCs operate in conflict zones and wherever a conflict exists, the PMCs surface in those regions. Furthermore, “economically rich, but population poor states, such as those in the Persian Gulf, are able to reach power levels above what they would be able to do otherwise. The same holds true for new states (Croatia) or even nonstate groups (CARE), which used to lack the institutional support and expertise to build or

³¹⁶ Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*.

³¹⁷ Singer, *Corporate Warriors: The Rise of the Privatized Military*, 45.

³¹⁸ *Ibid.*, 18.

³¹⁹ *Ibid.*, 171.

³²⁰ See Avant, *The Market for Force: The Consequences of Privatizing Security*, 310, and Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 330.

sustain a capable military force.”³²¹ Even democratic states who are unaware of or unwilling to employ PMCs are new markets under the “‘privatization revolution,’ which provided the logic, legitimacy, and models for the entrance of markets into formerly state domains.”³²²

c. *The Creation or Discovery of New Raw Materials*

Simply because PMCs are service-oriented businesses, they do not create new raw materials. However, their ease of use and performance compared to state-owned and military alliance capabilities could be considered as the creation of new methods of serving, which is the next bullet.

d. *The Creation or Discovery of New Methods of Production (or Performing Services)*

PMCs have diversified activities. They involve,

in arms sales (Sandline), privatizations, financial investments, mining or the selling of raw materials (Executive Outcomes (EO) in Sierra Leone and Angola), oil extraction (Israeli PMC Lev’dan in the Republic of Congo), or the provision of services from medical assistance to transport, telecommunications (Geolink), assistance to rebuild industrial and agricultural sectors (EO) or to develop tourism (Denard’s SOGECOM), etc.³²³

As such, PMCs provide new services for their clients who have previously never thought about them. For example, although the service is not new, they provide robust security that makes possible otherwise extremely risky investments for the clients. Singer calls these PMCs ‘investment enablers,’ which create local stability that reduces the costs of the client and increases the investment’s value. On the other hand, they could also provide services to MNCs, and humanitarian organizations, such as Worldvision in Sierra Leone and the United Nations High Commission for Refugees (UNHCR) (which hired PMCs for protection and security advisory on the Afghanistan border). Then, “the

³²¹ Singer, *Corporate Warriors: The Rise of the Privatized Military*, 172.

³²² Ibid., 49.

³²³ Renou, *Private Military Companies against Development*, 109.

firms create a counterpart to their help to multinational corporations, becoming here what one might consider “aid enablers.” Indications are that this client sector will boom in the very near future.”³²⁴

They also help their clients extract their valuable resources safely in return or payments in oil or mining concessions. “The PMF ... provides security to the government principal and its business ally's commercial operations. The government, in turn, provides the legitimacy, while the corporate entity provides the cash that indirectly pays the firm. As a consequence, the problem of securing destabilized regions becomes a viable business activity to the benefit of all parties.”³²⁵ Although this would normally be considered a beneficial agreement for the client who previously could not operate its resources to the degree it desired, the agreement made for present gain could disrupt the client’s future arrangements.

Another innovation in PMC services is the use of their spin-off subsidiaries. According to Singer, EO is rumored to have been indirectly paid through mining concessions in Sierra Leone when its related companies had hired some of its original personnel to continue local security.³²⁶

On the other hand, some companies also offer new capabilities. For example, according to its website Blackwater, a North Carolina based PMC, offers comprehensive professional security, peacekeeping, and stability training on its over 6000 acres of private land where it has trained over 50,000 Law Enforcement, Military and civilian personnel to date. Furthermore, the company has a patent-pending target system for its ranges used in training, and an Armored Personnel Carrier that the company claims is the most protected carrier for urban combat environment.³²⁷

³²⁴ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 82.

³²⁵ Ibid., 166.

³²⁶ Ibid., 117.

³²⁷ “Blackwater, USA Official Website,” <http://www.blackwaterusa.com/> (accessed 01/30/2007).

Dave Whyte states how governments are using PMCs in an innovative fashion,

Historically, PMCs have been used creatively by domicile states to enhance their foreign policy options. The symbiotic relationship between the United States government and its PMCs that we can observe today is certainly in this tradition ... It has been argued that the use of PMCs has allowed the United States government to claim neutrality, whilst simultaneously monitoring and retaining political influence in difficult-to-reach territories.³²⁸

The use of PMCs in this way by their home governments opens the way “for foreign policy by proxy – where corporate entities do what the government cannot.”³²⁹ Thus, governments could avoid “the need for approval from legislatures, safe in the knowledge that involvement in or awareness of controversial military operations can be plausibly denied.”³³⁰

e. The Creation or Discovery of New Ways of Organizing

First, as previously discussed, most of the PMCs do not have large numbers of employees and can limit their expenditures on fixed assets,³³¹ and some of them are often no “more than a letterhead and a Rolodex file or database of willing employees.”³³² The initial costs are limited to casual labor, an address, a list of names available and already trained, and some advertising.³³³ They are organized as little more than databases of qualified personnel and specialized subcontractors; such arrangements

³²⁸ Whyte, *Lethal Regulation: State-Corporate Crime and the United Kingdom Government's New Mercenaries*, 590.

³²⁹ Avant, *The Market for Force: The Consequences of Privatizing Security*, 4.

³³⁰ Whyte, *Lethal Regulation: State-Corporate Crime and the United Kingdom Government's New Mercenaries*, 591.

³³¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 75.

³³² *Ibid.*, 79.

³³³ Renou, *Private Military Companies against Development*, 109.

“[that do] not require bricks and mortar locations also generate opportunities for entrepreneurial profit.”³³⁴ Moreover, they have the ability to move across borders or transform themselves into spin-offs, wherever and whenever they choose.³³⁵

Second, some companies with global brand names take advantage of smaller organizations once they gain entry into a local market. EO created a network of smaller firms specialized in different services. “Having seized local market share, these new firms would remain even after the original PMF's operations had ostensibly ended ... The result of this marriage of local specialization and transnational branding is a flexible network, loosely linking each new market into an overall corporate structure.”³³⁶

Lastly, although it is a company's preference rather than creation of a new way of organizing, a number of companies organize themselves to remain in highly specialized fields, such as de-mining companies Ronco and Minetech. That de-mining is considered acceptable helps companies disassociate themselves from the rest of the industry.³³⁷

2. The Source of the Opportunities

Eckhardt and Shane, relying on the studies of prior research in entrepreneurship, categorize opportunities by sources: differences between opportunities resulting from information asymmetries and opportunities resulting from exogenous shocks of new information, changes in supply and demand, differences between productivity enhancing and rent-seeking, and catalysts of change that generate opportunities.³³⁸

a. Information Asymmetry

Whether new information is available or not, it is clear that opportunities exist in both situations. For example, when the contract winner has been predetermined, there exists an information asymmetry between the competing companies. “This has reputedly happened with certain politically connected firms, such as with MPRI's gain of

³³⁴ Eckhardt and Shane, *Opportunities and Entrepreneurship*, 340.

³³⁵ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 239.

³³⁶ *Ibid.*, 86.

³³⁷ *Ibid.*

³³⁸ Eckhardt and Shane, *Opportunities and Entrepreneurship*, 341.

the “Train and Equip” contract or DynCorp's frequent U.S. State Department contracts.”³³⁹ Information asymmetry could also help PMCs if clients are willing to seek lower-cost methods than their in-house capabilities and lack the comparative data on alternatives. That the client requires the information in this case gives comparative advantage over the client’s in-house capability.

b. Exogenous Shift-Based Opportunities

Opportunities could result from external shifts in information, such as government actions or the creation of new knowledge. In the first case, government intervention by regulation or influence on the dynamics of industry by money supply, interest rates or other factors could shift the existing information.³⁴⁰ For instance, in the U.S., after the Gulf War ended, the Pentagon paid Brown & Root Services nearly \$9 million to study how PMCs could support American soldiers.³⁴¹ This was the signal of the government’s purpose in employing PMCs, which shifted the emerging industry’s information and created opportunities. Another similar case related to government actions in the UK. The British Government’s response to the suggestions of Green Paper, ‘Private Military Companies: Options for Regulation’ preferred the options “to be those involving the issue of a general license for companies supplemented by a licence for each contract. The licensing regime would be combined with the establishment of a voluntary code of conduct that companies would be requested to adhere to. This ‘soft-touch’ regulatory mix is likely to prove highly advantageous for a state-corporate military alliance.”³⁴²

In the second case, the US Federal Government created new knowledge by describing ‘commercial’ item definition and commercial acquisition practices. This nature of the new knowledge influenced the type and volume of opportunities, which “embraced and initiated—through legislative means—reformation of the acquisition

³³⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 152.

³⁴⁰ Eckhardt and Shane, *Opportunities and Entrepreneurship*, 341.

³⁴¹ B. Yeoman, “Soldiers of Good Fortune,” *The Independent Weekly*, <http://www.indyweek.com/gyrobase/Content?oid=oid%3A19877> (accessed 2/26/2007).

³⁴² Whyte, *Lethal Regulation: State-Corporate Crime and the United Kingdom Government's New Mercenaries*, 588.

process, including the passage of the Federal Acquisition Streamlining Act of 1994, the Federal Acquisition Reform Act of 1995, and the Service Acquisition Reform Act of 2003. All of the Acts (FASA, FARA, and SARA) created “commercial” buying practices aimed at garnering greater efficiency and effectiveness in the acquisition process, and eliciting greater participation in Federal acquisitions by non-traditional contractors.”³⁴³

c. *The State of Research Addressing Information Asymmetry-Based Opportunities*

In his book “Innovation and Entrepreneurship,” Peter Drucker discusses incongruities causing opportunities based on information asymmetries. One of them applicable to private military industry is the incongruity between perceived and actual customer values and expectations.³⁴⁴ The operations of EO in Angola, for instance, cost \$60 million. When compared with prolonged unsuccessful battles of the larger and much more expensive Angolan Army, the company proved to be efficient and effective. Despite the ‘mercenary’ label, EO exploited the opportunity of its customer’s demand. Obviously, it was much less expensive and more affordable to the Angolan government³⁴⁵ and the incongruity was clearly visible to EO.

Another incongruity could be in the rhythm or the logic of a key industry process, which might only be available to people within a given industry. For example, MPRI planned to tap into the US military market that opened up as the Pentagon downsized the military force.³⁴⁶ This was the result of two related factors. Firstly, MPRI employees, besides being new people of the industry, were former military; they were the former employees of the US military, which knew its requirements best. Secondly, they saw the opportunity that MPRI could fill in the training requirement gap with its collective experience.

³⁴³ E. C. Yoder, *Engagement versus Disengagement: How Structural & Commercially-Based Regulatory Changes Have Increased Government Risks in Federal Acquisitions* (Monterey, CA: Naval Postgraduate School, 2004), 5.

³⁴⁴ P. F. Drucker, *Innovation and Entrepreneurship: Practice and Principles* (Toronto: Fitzhenry & Whiteside Limited, 1985), 64.

³⁴⁵ Renou, *Private Military Companies against Development*, 110.

³⁴⁶ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 119.

d. Supply vs. Demand Side Changes

Opportunities could also be classified based on whether the demand or the supply generates them. According to Schumpeter, as discussed earlier, changes in inputs, ways of organizing, production (service) processes, or product (service) itself could be a source of opportunity.³⁴⁷ On the other hand, to Kirzner, demand (customer preferences that influence the allocation of resources) could generate opportunities.³⁴⁸

The end of the Cold War is a telling example of the shifts in both supply and demand. When the Berlin Wall fell, the half-century-long bi-polar global order changed. States downsized their surplus military power to reasonable levels. On the one side, unemployed, mostly young military personnel began new searches to continue their careers in similar fields, and ended up founding new security related companies. For example, in Russia, several new companies, having nearly 150,000 employees were founded to serve the international market.³⁴⁹

On the other side, due to the lack of opponents and downsized numbers, military powers left their previously important territories, mostly in Africa. When the required stability in these countries could not be met with existing state militaries, they hired PMCs. However, two other factors contributed to the change of supply and demand equilibrium of PMCs. “The first factor comprises the broad transformations that have taken place in the nature of warfare itself. These have created new demands and new market opportunities for PMFs. The second factor is the “privatization revolution,” which provided the logic, legitimacy, and models for the entrance of markets into formerly state domains.”³⁵⁰

Furthermore, for the developed countries the high intensity level of warfare requires advanced technology, and in turn specialized expertise. PMCs serve in those niche markets where states are reluctant to train their own personnel due to

³⁴⁷ Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*.

³⁴⁸ Kirzner, *Perception, Opportunity, and Profit: Studies in the Theory of Entrepreneurship*, 13-33.

³⁴⁹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 12.

³⁵⁰ *Ibid.*, 49.

economic considerations. In the case of underdeveloped countries, “[l]ow intensity conflict, primarily taking place in global areas of transition, has often lost its ideological motivations, and instead has become criminalized. In sum, warfare is undergoing several key transformations – diversification, technologization, civilianization, and criminalization – each of which creates opportunities for private firms to play increasing roles.”³⁵¹

As aforementioned, the US government’s new definition of commercial items, which includes services, is also a good example of the demand-side change. After legislation, the Pentagon has begun to demand more services, “from predominantly tangible goods and hardware to a near fifty-fifty mix of goods and services.”³⁵²

The September 11 attacks have also increased the demand for PMCs. The opportunity was created when the increase in demand outpaced the supply of the existing companies. Following the attacks, the demand for their services expanded more quickly, and today, in the US, a number of vital tasks have been entrusted to PMCs.³⁵³

e. Productivity-Enhancing vs. Rent-Seeking Opportunities

Research on entrepreneurship mostly focuses on productive entrepreneurship, as the pursuit of opportunity makes economies more efficient. However, entrepreneurial actions could be private rent seeking. William J. Baumol defines rent seeking as “any activity whose objective is the acquisition of some monopoly profit or the economic rents currently generated or potentially available in the economy.”³⁵⁴ Activities such as litigation, takeovers, and tax evasion and avoidance, which could be innovative but do not contribute to the productive capacity of an

³⁵¹ Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, 61.

³⁵² Yoder, *Engagement versus Disengagement: How Structural & Commercially-Based Regulatory Changes Have Increased Government Risks in Federal Acquisitions*, 1.

³⁵³ R. Berrios, “Government Contracts and Contractor Behavior,” *Journal of Business Ethics*,” 63 (2006), 127.

³⁵⁴ W. J. Baumol, *Entrepreneurship, Management, and the Structure of Payoffs* (Cambridge, Mass.: The MIT Press, 1993), 10.

economy, are the primary examples of rent seeking.³⁵⁵ Thus, if an entrepreneurial activity shifts wealth from productivity enhancing activities to rent seeking, it would not be desirable to promote the interests of society.

Although military activity is a prime outlet for entrepreneurial activity, rent seeking could happen in the use of military violence, which is itself an unproductive activity in economical terms.³⁵⁶ On the other hand, private military industry could worsen the situation. For example, in many failed countries, declining investment, production, and legitimacy or increased corruption lessen tax collection. The declining revenue leads to dependence both on external sources and on private sources, which might be offered together by PMCs. Consequently, while the industry could find new opportunities through rent-seeking activities, it could weaken the rule of law in the failed state.³⁵⁷ However, strong states with their better monitoring and sanctioning capacities “have mechanisms to extract revenue in a central tax system, an established system of contracting, and a variety of mechanisms to inhibit rent seeking by either the state or private agents.”³⁵⁸

Furthermore, the fragmented structure of the private military industry creates excessive economic rent seeking for the clients with minimal financial resources. In addition, the presence of competition – allowing for outsourcing military activities to be beneficial – is not ensured when PMCs are used. This is the case for most NGOs.³⁵⁹

3. The Initiator of the Change

The activity of an actor that initiates the change could result in entrepreneurial opportunities, and the type of initiator could influence the process of discovery, as well as the value and duration of the opportunity. Non-commercial entities (such as NGOs), governments, existing and new commercial entities in an industry, their suppliers and

³⁵⁵ Baumol, *Entrepreneurship, Management, and the Structure of Payoffs*, 40-41.

³⁵⁶ Ibid., 44, 52.

³⁵⁷ M. Kaldor, “Beyond Militarism, Arms Races and Arms Control,” Social Science Research Council,” <http://www.ssrc.org/sept11/essays/kaldor.htm> (accessed 12/24/2006).

³⁵⁸ Avant, *The Market for Force: The Consequences of Privatizing Security*, 58.

³⁵⁹ C. Spearin, “Private Security Companies and Humanitarians: A Corporate Solution to Securing Humanitarian Spaces?” *International Peacekeeping* 8, no. 1 (2001), 32.

customers,³⁶⁰ and some exogenous shifts (such as the end of the Cold War era and the September 11 attacks) are the different types of actors. This classification of opportunities has already been discussed under different names in previous sections.

D. PATH-DEPENDENCE AND THE CASE OF BLACKWATER, USA

1. Path Dependence

In general terms, path dependence is defined “as a general property of complex dynamic systems, which implies that in a given explorative space it is impossible to know all the possible paths; moreover, it implies that every successive decision-making act—whether it is carried out by an individual or an organization, or in the development of an institution—is dependent on the previously covered path, endogenous experience and feed-back.”³⁶¹

In a path-dependent process, choices made based on historical context could persist long after the conditions that created the dependence of economic outcomes on the path have changed. The features of path dependency could range from small-scale technical standards to large-scale institutions and the patterns of economic development. For example, the case of the ‘QWERTY’ standard typewriter and computer keyboard is a technical standard adopted globally. Another example is the path dependence in farmers’ choice of using integrated pest management (IPM). “To be practical, IPM must be used on the whole set of farms that are in proximity to each other. Where this set is large, the transaction costs of persuading all farmers to forego chemical methods often prevent adoption. In addition to these localized positive feedbacks, local learning effects also make the choice between systems path dependent.”³⁶²

However, in some cases not all of the actions are path dependent in that firms have the ability to control the direction and outcome of the process. In other cases, the attempts of rival firms to promote their products and factors that are unforeseen or out of

³⁶⁰ Eckhardt and Shane, *Opportunities and Entrepreneurship*, 344.

³⁶¹ S. Rizzello, “Knowledge as a Path-Dependence Process,” *Journal of Bioeconomics*, no. 6 (2004), 261-262.

³⁶² D. Puffert, “Path Dependence,” <http://eh.net/encyclopedia/article/puffert.path.dependence> (accessed 02/28/2007).

their control could affect the process and create path dependence. This is the case with Microsoft's application software for specific operating systems. On the one hand, many companies develop compatible products for Microsoft; on the other hand, some others compete to develop and introduce innovative products.³⁶³

2. Blackwater, USA

Blackwater, USA, based in Moyock, North Carolina, "gets its name from the covert missions undertaken by divers at night and from the peat-colored water common to the area."³⁶⁴ For a logo, the company chose a bear claw, representing the large brown and black bear population in the area. Former Navy SEALs Gary Jackson and Erik Prince founded it in 1997 to build a first-class military training center, seeing that there was an opening for such a facility after the US military closed a number of its training centers. Eric Prince, one of the richest men to have ever served in the US military provided the financial backing and business insight needed to operate Blackwater. The company bought a large farmland in Camden and Currituck counties in North Carolina, 25 miles from Fort Bragg, a base for its personnel pool.³⁶⁵

The company advertises itself as "the most comprehensive professional military, law enforcement, security, peacekeeping, and stability operations company in the world."³⁶⁶ According to the company's website, it is comprised of nine separate business units, and has relationships with its strategic partners, Aviation Worldwide Services and Greystone Ltd.:³⁶⁷

- Blackwater Training Center, the largest private firearms and tactical training center in the US and the company's original focus,
- Blackwater Target Systems, a department offering shooting range target systems,

³⁶³ Puffert, *Path Dependence*.

³⁶⁴ M. Duffy, *When Private Armies Take to the Front Lines*, Vol. 163 (New York: Time Inc., 2004), 32.

³⁶⁵ "Blackwater USA," <http://www.answers.com/topic/blackwater-usa> (accessed 02/28/2007).

³⁶⁶ *Blackwater, USA Official Website*.

³⁶⁷ *Ibid*.

- Blackwater Security Consulting, a risk analysis and training service, which also supplies clients with mobile security teams of former members of special operations units,
- Blackwater Canine, a dog-training unit,
- Maritime Security,
- Manufacturing of custom Armored Vehicles,
- Parachute Jump Team,
- Aviation,
- Raven Development Group, an expanded service of building secure facilities.

These business units have the following capabilities:³⁶⁸

- A logistics operation that can deliver 100- and 200-ton self-contained humanitarian relief response packages,
- A Florida aviation division with 26 different platforms, including helicopter gunships, Boeing 767, and even a Zeppelin,
- The largest tactical driving track in the US,
- A 20-acre manmade lake with shipping containers,
- A K-9 training facility with 80 dog teams deployed around the world,
- A 1,200-yard-long firing range,
- A large private armory, including Berettas, Glocks and Sig Sauers,
- An armored vehicle development program called the Grizzly.

Blackwater spent its first three years struggling for an identity. It paid staff with an executive's credit card.³⁶⁹ It opened the training center in 1998, but in early months had difficulty in finding business. Later,

[t]he company became adept, however, at keeping tabs on national and international news, then adding facilities and training programs to meet perceived needs. For example, R.U. Ready High School was built after the 1999 shootings at Columbine High School in Littleton, Colorado. It was essentially a two-story, 24-room, six-stairwell, all steel building that allowed for the use of live gunfire inside and even the use of explosives

³⁶⁸ M. Hemingway, "Warriors for Hire: The Blackwater USA and the Rise of Private Military Contractors," *The Weekly Standard* 12, no. 14 (2006), 23-24.

³⁶⁹ B. Sizemore and J. Kimberlin, "Blackwater: Profitable Patriotism," <http://content.hamptonroads.com/story.cfm?story=108003&ran=206428> (accessed 02/27/2007).

for “dynamic entry” through the doors. R.U. Ready was used to teach law enforcement and military personnel special tactics ... The facility found a ready market; clients included a number of police officers who paid for the training out of their own pockets.³⁷⁰

In 2000, after the terrorist attack on the destroyer USS Cole in Yemen, Blackwater found the opportunity to provide security for many clients.³⁷¹ In response, it constructed a mockup of a Navy vessel. In 2002, Blackwater won a \$35.7 million, five-year contract with the US Navy to conduct two-week training sessions for 10,000 sailors “on topics that included sentry duty, weapons use aboard a ship, and how to board, seize, and search another ship.”³⁷²

Its founder’s predictions on the military’s privatizing many traditional functions reserved for troops paid off in 2001. After the September 11 attacks, Blackwater “has seen its business boom – enough to warrant a major expansion of its training facility this year.”³⁷³ This led to a spike in business for Blackwater, and its training facilities found more use as it trained personnel for corporations, the US government, and the US military.³⁷⁴ As a result, Blackwater estimated 600 percent revenue growth for the next four years. While it was originally recruiting personnel from former SEALs, Green Berets, Army Rangers, and Delta Force Troops, after the Iraq War, the demand for personnel increased and in 2004 it recruited 60 former commandos of Chile’s military. Interestingly, it also found personnel from the Currituck County Sheriff’s office.³⁷⁵ According to Time magazine, Blackwater’s official website claims “Blackwater has the people to execute any requirement.”³⁷⁶

³⁷⁰ Blackwater USA.

³⁷¹ Sizemore and Kimberlin, *Blackwater: Profitable Patriotism*.

³⁷² Blackwater USA.

³⁷³ Yeoman, *Soldiers of Good Fortune*.

³⁷⁴ Blackwater USA.

³⁷⁵ Sizemore and Kimberlin, *Blackwater: Profitable Patriotism*.

³⁷⁶ Duffy, *When Private Armies Take to the Front Lines*, 34.

As the company continued to see training as its core business function, in 2004 it made major upgrades to its facilities by receiving permission from Currituck County to expand its facilities into that county. New facilities include firearms ranges, parachute landing zones, and explosives training areas. Later, “Blackwater began to build a roadway through 90 acres of its property that would be suitable for training in high-speed chases (above 100 miles per hour) as well as motorcade protection against terrorist attacks.”³⁷⁷

Jeremy Scahill claims that in June 2004, the US State Department awarded to Blackwater a \$230 million contract, a “little-known [secretive] Worldwide Personnel Protective Service (WPPS) program, described in State Department documents as a government initiative to protect US officials as well as ‘certain foreign government high level officials whenever the need arises,’” but actually paid \$320 million.³⁷⁸

In the autumn of 2005, about 150 Blackwater employees were employed to assist the Hurricane Katrina relief efforts in New Orleans.³⁷⁹ According to a company press release dated September 1, 2005, Blackwater joined the ongoing relief effort by dispatching a SA-330J Puma helicopter to evacuate people from flooded areas. The company also provided airlift services, security services, communication support, crowd control, humanitarian support services, and logistics and transportation services.³⁸⁰ “Unofficial reports claim that the company also provided law enforcement services, such as securing neighborhoods and confronting criminals.”³⁸¹ In 2005, Blackwater also lobbied for Homeland Security contracts to train 2,000 new Border Patrol agents.³⁸²

³⁷⁷ *Blackwater USA*.

³⁷⁸ J. Scahill, “Mercenary Jackpot: US Pays Blackwater \$320 Million in Secretive Global ‘Security’ Program,” *The Nation*, 2006, <http://www.thenation.com/doc/20060828/scahill> (accessed 03/02/2007).

³⁷⁹ *Blackwater USA*.

³⁸⁰ *Blackwater, USA Official Website*.

³⁸¹ *Blackwater USA*.

³⁸² *Ibid.*

In March 2006, Blackwater suggested at an international conference that a brigade-size force was ready to move into a troubled region for humanitarian efforts and low intensity conflicts.³⁸³

In November 2006, the company announced its plans to open a new training site in Illinois, to be known as Blackwater North. It would have seven flat ranges, one each known- and unknown-distance ranges, and a climbing tower.³⁸⁴

In 2007, during the State of the Union Speech, President Bush mentioned an initiative that would help the US forces in response, in reconstruction and in war: Civilian Reserve Corps. The proposed Corps was not his idea alone. Erik Prince, the mega-millionaire owner of Blackwater had a privatized version of the concept. In early 2005, Prince announced the idea at a military conference of a 'contractor brigade' as an addition to the official military with a lower price tag.³⁸⁵

3. Innovation, Path Dependence, and Blackwater

The concept of path dependence suggests "minor accidental events can cause convergence towards sub-optimal equilibriums, and also explain ... the way innovations spread."³⁸⁶ The path taken by Blackwater depends on the context and coincidence whereby it is able to exploit new opportunities.

Douglas J. Puffert states that "[t]he economics of path dependence tells us not only how *history* matters in allocation; it also tells us how, even more fundamentally, *time* matters."³⁸⁷ For instance, the location decision of the company affected the subsequent course of allocation of its resources. The proximity of the location to a military base required that the company would maintain relations with its personnel pool.

³⁸³ B. Sizemore, "Blackwater USA Says It Can Supply Forces for Conflicts," <http://content.hamptonroads.com/story.cfm?story=102251&ran=202519&tref=po> (accessed 02/27/2007).

³⁸⁴ *Blackwater Plans Second Training Facility*, Vol. 231 (Washington, D.C.: Space Publications, 2006), 1.

³⁸⁵ J. Scahill, "Bush's Rent-an-Army," *Los Angeles Times*, sec. Main News, 2007, <http://libproxy.nps.edu:8080/login?url=http://proquest.umi.com.libproxy.nps.edu:8080/pqdweb?did=1201702101&sid=8&Fmt=3&clientId=11969&RQT=309&VName=PQD> (accessed 02/27/2007).

³⁸⁶ Rizzello, *Knowledge as a Path-Dependence Process*, 262.

³⁸⁷ D. Puffert, *Path Dependence, Network Form, and Technological Change*, (2001), 25-26, http://www.vwl.uni-muenchen.de/ls_komlos/nettech1.pdf (accessed 02/28/2007).

Although it has diverse business units, its core capability remained the training service. Path dependence suggests that once Blackwater transferred enormous amounts of money to build up and improve its training facilities, it is often more costly to change the process. When the costs of change are large, it is possible that Blackwater would continue to use sub-optimal solutions, which is not the case for Blackwater up to now; rather, this entailed Blackwater's continue spending on facilities. However, that this resulted more or less in a de facto industry standard contributed to its path dependence.

Not all the decisions made by Blackwater are path dependent. It can be concluded that some of them were pure coincidence of opportunities (such as attacks on the USS Cole and World Trade Center), whereas a few others were the result of the company's close relationships with the US government (Worldwide Personnel Protective Service (WPPS) program contract).

In fact, path dependence analysis is generally used for technology related processes. However, Puffert asserts that,

[p]ath-dependent processes of change in matters other than technology are also ... the result of value-producing interactions among agents ... Like path-dependent technological change, the evolution of institutions, organizations, and cultures surely depends on the pattern of interactions (i.e., the form or structure of social networks), the characteristics of innovative practices, foresight, switching costs, possibilities for internalizing external gains from switching, and other matters...³⁸⁸

Furthermore, Blackwater somehow (exactly how is not clear in the light of existing literature) managed to combine already existing elements into its services to create new useful combinations. For instance, it recruited Chilean former commandos and trained them in its training center, thus it created a new force with Blackwater experience. Another example is the company's Armored Vehicle engineering combining its capacity with real-world lessons learned on the operations.³⁸⁹

³⁸⁸ Puffert, *Path Dependence, Network Form, and Technological Change*, 27.

³⁸⁹ *Blackwater, USA Official Website*.

The innovative characteristics in the way Blackwater exploited opportunities ensured no obstacle to the introduction of its services. As Scahill points out “Blackwater now envisions itself as the FedEx of defense and homeland security operations.”³⁹⁰

E. CONCLUSION

The purpose of this chapter was to clarify the entrepreneurial processes in the private military industry. It mainly discussed the existence of entrepreneurial opportunities to the industry. Different PMCs unwittingly followed the opportunities to create a difference for their clients and to increase their profits. Whether they saw the opportunities or they simply followed the clear path, most of the PMCs exploited those opportunities. Thus, PMCs could be reasonably described as entrepreneurial.

As mentioned earlier, entrepreneurship helps PMCs pursue new avenues in the conduct of private military services. The companies discovered that inefficiencies in the security environment have flooded into the industry. The gap in the market of security that revealed ‘the latest military innovation’ still has many areas waiting to be exploited by the companies. Consequently, entrepreneurship could represent an appropriate and reasonable position in any PMC’s competitive context.

³⁹⁰ Scahill, *Bush's Rent-an-Army*, A.23.

VII. CONCLUSION

A. SUMMARY

Throughout history, soldiers for hire have always provided their skills in war fighting to customers who desired those skills. They have taken many different forms, ranging from individual soldiers to chartered companies. However, twentieth century introduced the new face of soldiers for hire, in the form of Private Military Companies. Although they have a lot of commonality with mercenaries, they differ in that they operate as established businesses. Chapter II gave the brief history of soldiers for hire and their evolution into PMCs.

Money, the basic economic exchange medium, is always the primary objective in the conduct of their business. Thus, the economics of the new industry formed the main framework for this project. In Chapter III, an analysis of the industry was given in order to understand and exploit it. The chapter concluded that any given PMC should not assume its inherent dynamics to be profitable. Many PMCs have preferred to locate in business clusters to take advantage of clustering. Given the requirements of their services, the private military industry could expand its services into new areas, if the industry could maintain its innovativeness and overcome its challenging issues.

Although it is a lucrative business and has many opportunities for the participants, several considerations facing the private military industry reduce its full-scale development. These concerns, regulation, ethics, legality, and political and social control of force were discussed in Chapter IV. Even if PMCs are generally more effective than most of the clients' in-house capabilities, the lack of regulation lessens the accountability, an important factor that should keep the industry apart from the mercenaries.

Chapter V tried to find the potential uses of PMCs in terms of TCE. Any transaction dealing with the integration or outsourcing of the industry players should consider the transaction costs. The chapter concluded that some of the decisions of

integration or outsourcing could cause transaction cost burden on the players. In addition, TCE analysis showed that many costs inherent to transactions might offset the desired cost savings of outsourcing.

Soldiers for hire were one of history's first entrepreneurs. The new private military phenomenon carries on the same tradition. Chapter VI explored these entrepreneurial behaviors in the industry. Many exogenous shifts gave rise to the entrepreneurship aspects of the industry. Some of the PMCs have followed these opportunities as given while some others have sought opportunities to progress. The gap in the market offers many unexploited situations for PMCs, and PMCs seeking these opportunities could position themselves ahead of their competitors.

B. SUGGESTIONS FOR FUTURE RESEARCH

Researchers in the field often lack comprehensive information on the industry. Before an actual implementation on the use of PMCs, further study and research is needed. Furthermore, some of the research and study could be independent; other portions should be conducted consecutively. Followings are some of the suggested research topics in the private military industry:

- First, an advanced analysis defining the extent and classification of the industry is required.
- Second, related to the first suggestion, an analysis of the ethical implications of PMC use should be carried out.
- Third, to define the international status of the PMCs, analyses of the required revisions in international law or analyses toward helping construct new laws should be completed. Additionally, research on the revision of national laws should be conducted.
- Fourth, a broader industry analysis covering all industry segments should be carried out. Then, profound segment analyses should be incorporated into the broad analysis.
- Fifth, TCE should be studied for every client.
- Sixth, case studies of some PMCs are required for the entrepreneurial aspects of the industry.
- Seventh, researchers should study how to incorporate PMCs into national systems.

APPENDIX A

Table 8. Private Military Companies (After: Avant, D.D., The Consequences of Privatizing Security)

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
Angola				
Alpha 5	Alpha 5	KK Group	Alpha 5	Alpha 5
Simportex	Saracen, International	Simportex	Guardesegura	Guardesegura
Saracen International		Saracen Int'l	KK Group	KK Group
			Saracen, International	Saracen, International
Australia				
	International Port		Fynwest	Fynwest
	Services		Global Risk Awareness	Global Risk Awareness
	Total Response		Global Support Agency	Optimal Solutions
	Solutions International		Optimal Solutions	Total Response Solutions
			Total Response Solutions Int'l Unity Resources Group	Int'l Unity Resources Group
Belgium				
	International Defense and Security (IDAS)		IDAS	IDAS
Canada				
CAE	Black Bear Consulting	Global Risk Holdings	Global Risk Holdings	Global Risk Holdings
ATCO Frontec Corp.	CAE	ATCO Frontec Corp.	PROCON	PROCON
	Global Risk Holdings			
	PROCON			
France				
COFRAS	COFRAS	COFRAS	Eric SA	Atlantic Intelligence
Eric SA	Eric SA	Eric SA	EHC	Eric SA
EuroCorps	Geolink	EuroCorps	Geos	EHC

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
France (cont.)				
Geolink	Secrets Service and Security	Geolink Service and Security	Secrets Service and Security	Geos
Secrets Service and Security		Setrico		Secrets Service and Security
		Sofremi		
Hong Kong				
			Hill and Associates	Hill and Associates
Hungary				
			CNS Europe Kft	CNS Europe Kft
Iraq				
			Badr Reconstruction Org.	ISI
			ISI	Near East Security
			Near East Security	Sumer International
Israel				
Beni Tal	Beni Tal	Beni Tal	Beni Tal	Beni Tal
Golan Group	Golan Group	Golan Group	Golan Group	Golan Group
International Security and Defense Systems	Levdan	International Security and Defense Systems	Hashmira	Hashmira
Levdan	Spearhead Limited	Levdan	International Security and Defense Systems	International Security and Defense Systems
Silver Shadow		Silver Shadow	Silver Shadow	Silver Shadow
			Spearhead Ltd.	Spearhead Ltd.
Italy				
Alenia Marconi		Alenia Marconi		
Kuwait				
			Diligence, ME	Diligence, ME
Netherlands				
			AON	AON
			Group 4/Flack	Group 4/Flack
New Zealand				
			Burrows and Associates	Burrows and Associates

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
Philippines				
Grayworks Security	Grayworks Security			
Romania				
			Bidepa	Bidepa
Russia				
		Alpha A	Alpha-A	Alpha-A
South Africa				
Executive Outcomes	Erinys	Erinys	Coin Security	Bridge Resources Ltd.
FND	Executive Outcomes	Falconeer	Empower Loss	Corporate Trading International
Ibis Air	Frederick, Nicholas, and Duncan (FND)	FND	Erinys	Coin Security
Lanseria	Lanseria	Ibis Air	Executive Outcomes	Executive Research Associates
Omega Support Ltd.	Meteoric Tactical Solutions	Meteoric Tactical Solutions	Gray Security	Gray Security
SA Bias Group	Ronin Protective Services	Omega Support Ltd.	KWZ	Lanseria
Southern Cross Security	Saracen, International	SA Bias Group	Lanseria	Lifeguard Security
		Strategic Resources Corporation (SRC)	Lifeguard Security	Omega Risk
			Meteoric Tactical Solutions	Parasec Corporate Dynamics
			Omega Risk	Ronin Protective Services
			Parasec Corporate Dynamics	Safenet
			Ronin Protective Services	Saracen, International
			Shield Security	Shibata Security
			Southern Cross Security	Southern Cross Security

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
South Africa (cont.)				
			Stabilico	Stabilico
Sweden				
			Securitas	Securitas
Turkey				
			Ultra Services	Ultra Services
UK				
Aims Limited	AKE, Ltd.	Avient	AD Consultancy	AD Consultancy
Avient	Blue Sky	Blue Sky	Aegis	Aegis
DSL	Chilport, Ltd.	CADA	Aims Limited	Aims Limited
Gurkha Security Guards	DSL	Crown Agents	AKE	AKE
Hart Group	Flagship Training, Ltd.	DSL	Global Contingency Projects Groups	Blue Sky
Northbridge	Global Impact	Global Development Four (GD4)	Global Impact	BritAm Defense
Rubicon International Services	Gurkha Security Guards	Global Risk Strategies	Gurkha Security Guards	Carnelian
Sandline	KAS Enterprises	GSG	Hart Group	Castleforce Consultancy
Securicor	Northbridge	Hart Group	Henderson Risk	Chilport, Ltd.
Strategic Consulting International	Presidium	Logo Logistics	ICP Group	DSL - Armor
THULE Global Security International	Rubicon International	Northbridge	Janusian Security	Global Impact
Watch Guard International	Sakina Security Services	Rubicon International Services	Logo Logistics	Global Contingency Projects Group
	Sandline	Sandline	Olive Security	Hart Group
	Strategic Consulting	Securicor	Peak	Henderson Riks, Ltd.
	Task International		Presidium	ICP Group
	THULE Global Security		Risk Advisory Group	Olive Securities
	Watch Guard Int'l		Rapport Research	Peak

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
UK (cont.)				
			Sapelli SARL	Rubicon
			Securicor	Sapelli SARL
			SSSI	Securicor
			Universal Guardian	SSSI
			Vance Int'l	Universal Guardian
				Vance Int'l
US				
AAI	Akal Security	Abunda	Akal	Babylon
Abunda	Blackwater	AirScan	Babylon	BH Defense
ACS	Booz Allen	AMEG	Bechtel	Blackheart International
AirScan	COMTek	BDM	BH Defense	CACI
Aviation Development	Cubic	Bechtel	Blackheart International	CTU Asia
Bechtel	DynCorp	Betac	Blackwater	Custer Battles
Bell Helicopter	Eagle Group	Booz-Allen & Hamilton	CTU Asia	Diligence
Betac	Executive Defense Tactics	Brown & Root Services	Custer Battles	DS Vance
Bird Air	Global Options	Custer Battles	Diligence	DTS Security
Blackwater	HSS, Int'l	Dalcorp	DS Vance	DynCorp
Booz Allen	Ibis Tek	Diligence	DTS Security	EODT
Braddock, Dunn and McDonald (BDM) Int'l	ICI, Oregon	DynCorp	DynCorp	GSI
CACI	Logicon	EAST	EODT	Hill and Associates
California Microwave Systems	MPRI - L 3	Flour	Executive Defense Tactics	Ibis Tek
Cubic Diligence	Operation Corporate Training	ICI, Oregon	GSGI	ICI, Oregon
DynCorp	Raytheon	International Resources Group	Guardesmark	ISI
Eagle Aviation services and Technology (EAST)	Ronco	Minetech	Hill and Associates	Kroll Associates

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
US (cont.)				
Flour International	SAIC	Pacific Architects and Engineers	Ibis Tek	MVM
Ibis Tek	Samson Int'l	Parsons	ICI, Oregon	New Bridge Strategies
ICI, Oregon	Steele Foundation	Ronco	ISI	O'Gara
Logicon	Total Security Services	SCS	KBR	Orion Management
Omega Air	Trojan Securities Int'l	US Defense Systems	Kroll Associates	Overseas Security and Strategic Information
Pacific Architects and Engineers	Vinnell Corp.	Vinnell	Meyer and Associates	Prasons
Parsons	Worldwide Security		MVM	Protective Operation Corporate Training
Raytheon			New Bridge Strategies	Potomac Group
Ronco			Nour	RONGO
SAIC			O'Gara Protective	SCG Int'l Risk
Titan Corp.			Operation Corporate Training	Sea Secure
Vinnell Corp.			Orion Management	Secure Source
			Overseas Security and Strategic Management	Trojan Securities
			Parsons	US Defense Systems
			Potomac Group Security	Wackenhut
			RamOPS	Worldwide Security Srv.
			Samson International	

Operational Support	Military Advice and Training	Logistic Support	Site/Personal Security	Crime Prevention/ Intelligence
US (cont.)				
			SCG Int'l Risk	
			SeaSecure	
			Source Incorporated	
			Secure Source	
			Steele Foundation	
			Total Security Services	
			Triple Canopy	
			Trojan Securities	
			US Defense Systems	
			Vance International	
			Wackenhut	
			Wade-Boyd	
			WarRoom Research	
			Worldwide Security	

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APPENDIX B

Table 9. Private Military Companies (After: SourceWatch Website)

Name	Abbreviation	Origin Country	Status
Alerta	Alerta	Angola	Undetermined
Alpha 5	Alpha 5	Angola	Active
Mamboji Lda.	Mamboji	Angola	Active
Teleservices	Teleservices	Angola	Active
International Port Services Training Group, Ltd.	IPSTG	Australia	Undetermined
International Defence and Security Resources NV	IDAS	Belgium	Active
ATCO Frontec Corporation	ATCO Frontec	Canada	Active
Global Impact	Global Impact	Canada	Active
Globe Risk Holdings, Inc.	Globe Risk	Canada	Active
Atlantic Intelligence	AI	France	Active
Compagnie Internationale d'Assistance Specialisee	CIAS	France	Undetermined
Euro Risques International Consultants SA	Eric SA	France	Undetermined
PHL Consultants	PHL Consultants	France	Defunct
Secrets	Secrets	France	Active
Service and Security	S&S	France	Active
Beni Tal	Beni Tal	Israel	Active
International Security Consultants	ISC	Israel	Undetermined
Levdan, Ltd.	Levdan	Israel	Undetermined
Long Range Avionics Technologies, Ltd.	LR Avionics	Israel	Active
Silver Shadow Advanced Security Systems	Silver Shadow	Israel	Undetermined
Spearhead Ltd.	Spearhead	Israel	Undetermined
Strategic Consulting Group	SCG	Israel	Defunct
The Golan Group	Golan Group	Israel	Active
Satellite Protection Services	SPS	Netherlands	Defunct
Stanwest Establishment	Stanwest	Not Available	Active
Russian Military Brotherhood	RMB	Russian Federation	Active
Southern Cross Security	SCS	Sierra Leone	Active
Bridge Resources International	BR International	South Africa	Undetermined
Corporate Trading International	CTI	South Africa	Undetermined
Executive Outcomes	EO	South Africa	Defunct
Falconer Systems	Falconer	South Africa	Undetermined
LifeGuard Management	LifeGuard	South Africa	Undetermined
Longreach (Pty) Ltd.	Longreach	South Africa	Defunct
Military Technical Services	MTS	South Africa	Undetermined
Nicholas Frederick and Duncan, Ltd.	NFD	South Africa	Active
Omega Support, Ltd.	Omega	South Africa	Undetermined
Panasec Corporate Dynamics	Panasec	South Africa	Undetermined
Saracen International, Ltd.	Saracen	South Africa	Active
Stability Control Agencies	Stabilco	South Africa	Defunct
Saracen Uganda, Ltd.	Saracen Uganda	Uganda	Active

Name	Abbreviation	Origin Country	Status
AMA Associates Limited	AMA	United Kingdom	Active
Control Risks Group, Ltd.	CRG	United Kingdom	Active
Defence Systems Limited	DSL	United Kingdom	Active
Global Contingency Projects Group	Global CPG	United Kingdom	Active
Global Development Four, Ltd.	GD4	United Kingdom	Active
Global Marine Security Systems	GMSS	United Kingdom	Active
Global Risk Management (UK) Ltd.	Global Risk (UK)	United Kingdom	Active
Gurkha Security Guards, Ltd.	Gurkhas	United Kingdom	Active
Hart Group, Ltd.	Hart Group	United Kingdom	Active
J & F Security, Ltd.	J & F	United Kingdom	Undetermined
Kulinda Security Ltd.	Kulinda	United Kingdom	Defunct
Northbridge Services Group, Ltd.	NSG	United Kingdom	Active
Olive Security Limited	Olive Security	United Kingdom	Active
Rapport Research & Analysis, Ltd.	Rapport	United Kingdom	Active
Rubicon International Services, Ltd.	Rubicon	United Kingdom	Active
Sakina Security Services, Ltd.	Sakina	United Kingdom	Defunct
Saladin Security, Ltd.	Saladin	United Kingdom	Active
Sandline International	Sandline	United Kingdom	Active
Special Projects Services Ltd.	Special Projects	United Kingdom	Undetermined
Strategic Consulting International	SCI	United Kingdom	Active
TASK International, Ltd.	TASK International	United Kingdom	Active
The Surveillance Group	Surveillance Group	United Kingdom	Active
THULE Global Security International	THULE	United Kingdom	Active
Trident Maritime	Trident	United Kingdom	Active
Watchguard International Ltd.	Watchguard	United Kingdom	Defunct
AirScan, Inc.	AirScan	United States	Active
ArmorGroup	ArmorGroup	United States	Active
Aviation Development Corporation	ADC	United States	Defunct
Betac Corporation	Betac	United States	Defunct
Booz Allen Hamilton, Inc.	Booz Allen	United States	Active
Cubic Corporation	Cubic	United States	Active
DynCorp, Inc.	DynCorp	United States	Active
Eagle Aviation Services & Technology, Inc.	EAST	United States	Active
Executive Outcome, Inc.	Executive Outcome	United States	Active
Global Studies Group, Inc.	GSG	United States	Active
GlobalOptions, LLC	GlobalOptions	United States	Active
Gormly International	Gormly	United States	Active
International Charter Incorporated of Oregon	ICI	United States	Active
Kellogg Brown & Root, Inc.	KBR	United States	Active
Logicon, Inc.	Logicon	United States	Active
Military Professional Resources Incorporated	MPRI	United States	Active
Pacific Architects & Engineers, Inc.	PAE	United States	Active
Pistris, Inc.	Pistris	United States	Active
Sayeret Group, Inc.	Sayeret Group	United States	Active
Special Ops Associates	SOA	United States	Active

Name	Abbreviation	Origin Country	Status
Trojan Securities International	Trojan Securities	United States	Active
U.S. Defense Systems	USDS	United States	Active
Vinnell Corporation	Vinnell	United States	Active
Wackenhut Corporation	Wackenhut	United States	Active
Avient (Pvt) Ltd.	Avient	Zimbabwe	Undetermined

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